JAPANESE INVESTMENT IN THE PRC

by

CHAN YEE-TAK, DOUGLAS
陳 義 德

MBA PROJECT REPORT

Presented to

The Graduate School

In Partial Fulfilment

of the Requirements for the Degree of

MASTER OF BUSINESS ADMINISTRATION

TWO-YEAR MBA PROGRAMME

THE CHINESE UNIVERSITY OF HONG KONG

May 1994

APPROVAL

Name: Chan Yee-Tak, Douglas

Degree: Master of Business Administration

Title of Project: Japanese Investment in the PRC

K J Fukuda

Dr. K. John Fukuda

Date Approved: 29/4/94

Heilongjiang 黑龙江
Harbin 哈尔滨
Jilin 吉林
Changchun 长春
Shenyang 沈阳
Liaoning 辽宁
Manzhouli 满洲里
Nei Mongol Zizhiqu 内蒙古自治区
Erenhot 二连浩特
Hohhot 呼和浩特
Beijing Municipality 北京市
Beijing 北京
Qinhuangdao 秦皇岛
Dalian 大连
Tianjin Municipality 天津市
Tianjin 天津
Hebei 河北
Shijiazhuang 石家庄
Shanxi 山西
Taiyuan 太原
Yantai 烟台
Qingdao 青岛
Shandong 山东
Jinan 济南
Lianyungang 连云港
Zhengzhou 郑州
Henan 河南
Xuzhou 徐州
Jiangsu 江苏
Anhui 安徽
Nantong 南通
Nanjing 南京
Hefei 合肥
Shanghai Municipality 上海市
Shanghai 上海
Ningbo 宁波
Hangzhou 杭州
Zhejiang 浙江
Wenzhou 温州
Urumqi 乌鲁木齐
Korla 库尔勒
Xinjiang Uygur Zizhiqu 新疆维吾尔族自治区
Gansu 甘肃
Qinghai 青海
Golmud 格尔木
Xining 西宁
Lanzhou 兰州
Ningxia Huizu Zizhiqu
Yinchuan 银川
Shaanxi 陕西
Xian 西安
Xizang Zizhiqu (Tibet) 西藏自治区
Lhasa 拉萨
Sichuan 四川
Chengdu 成都
Chongqing 重庆
Hubei 湖北
Wuhan 武汉
Hunan 湖南
Changsha 长沙
Nanchang 南昌
Jiangxi 江西
Fujian 福建
Fuzhou 福州
Xiamen 厦门
Guizhou 贵州
Guiyang 贵阳
Yunnan 云南
Kunming 昆明
Guilin 桂林
Guangxi Zhuangzu Zizhiqu 广西壮族自治区
Nanning 南宁
Guangdong 广东
Guangzhou 广州
Shenzhen 深圳
Shantou 汕头
Zhenjiang 湛江
Beihe 北海
Macao (Aomen) 澳门
Hong Kong (Xianggang) 香港
Taiwan 台湾
Taibei 台北
Gaoxiong 高雄
广西壮族自治区 Guangxi Zhuangzu Zizhiqu
广东 Guangdong
台湾 Taiwan
香港 Hong Kong (Xianggang)
Nanhai Islands 南海诸岛
International Boundary 国界
Provincial Boundary 省界
Railways 铁路
Rivers 河流
Lakes 湖泊
Cities 城市

ABSTRACT

Japanese direct investments in the People's Republic of China (PRC) have risen in recent years, against the general three-year decline in their investments worldwide. Thus the China's share of Japanese global investments has grown substantially. In 1992, Japan was the fourth largest investor in China. The Sino-Japanese trade is also enormous. In 1993, Japan has become China's largest trade partner. In this report, we first give some general background theories of foreign direct investment (FDI) which can help us to understand the topic under research. Then we start to study the economic environments in Japan and China, the Sino-Japanese trade pattern and its relationship to FDI. Afterwards, we narrow down to concentrate on the FDI environment in China. What are the Chinese government policies and the investment pattern? What are the incentives for foreign investors? Then we view the subject from the Japanese perspective. What are the Japanese global investment patterns and its investment strategies in the PRC? Two examples - Canon and Yaohan, are given. The Japanese investment approach is also compared with those of Hong Kong, Taiwan and South Korea. Furthermore, we try to find out what sort of problems are faced by the Japanese investors and how they resolve them. Last, we conclude by giving an outlook of FDI in China and the prospects for Japanese companies in China.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

ACKNOWLEDGMENTS

I am indebted to my project supervisor - Dr. K. John Fukuda, Chairman of the Department of International Business of the Chinese University of Hong Kong, for his invaluable advices and help throughout the whole project. Thanks should also be given to Mr. Hiroshi Fujiwara, Deputy Director General of Japan External Trade Organization (JETRO), Hong Kong, for providing useful information and opinions. I would also like to especially acknowledge the following organizations - the Chinese University of Hong Kong Library, the City Polytechnic of Hong Kong Library, the University of Science and Technology of Hong Kong Library, the Universities Service Centre for providing most of the secondary information.

CHAPTER I

INTRODUCTION

1.1 INTRODUCTION

The year 1993 marked the 20th anniversary of normalization of diplomatic relations between China and Japan. In China, there is an unprecedented boom in investment - greater than any booms since the economic reform and open door policy have been launched - and due mainly to the dramatic way China has opened up to the outside world. In Japan, due to the strong Yen and the rise in local production costs, Japanese corporations have been investing overseas in order to lower their factor costs and upgrade their global competitive power. China wants modernization and industrialization, while Japan struggles to make inroads in Chinese huge market so as to sustain its prosperity. Since 1990, Japanese investment in China has been rocketing. In terms of investment amount, Japan was the fourth largest investor in China in 1992, just behind Hong Kong, Taiwan and the United States.[1] China surged from 17th (0.6% of the Japanese global investment portfolio) in 1990 to 6th (3.1% of the Japanese global investment portfolio) in 1992 as a Japanese investment

[1] "Recent Trends in investment and operations of foreign affiliates," *JETRO China Newsletter*, May-June 1993, p. 2.

site. Cumulatively, although China's share of total Japanese foreign direct investment (FDI) was still small (in 1992, China was Japan's 19th largest foreign investment site with a share of 1.2% of the Japanese global investment portfolio[2]), its growth rate was prominent. As Japanese investment in China is growing rapidly and becoming more and more important, it is worthwhile to have a look at its development.

1.2 Purpose of the Study

The purpose of this study is to understand the approaches of Japanese investment in China. Japanese enterprises are famous for their characteristics of aggressive fast growing strategies. After this study, it is hoped that investors can have an overview of the above subject, take it as a reference, get their insights, and then make their own predictions or even investment decisions in China.

1.3 Objectives of the Study

The overall objective of this study is to investigate the approaches of Japanese FDI in the People's Republic of China (PRC). Specific objectives are as follows:

(1) To study the Sino-Japanese trade pattern and its relationship to FDI;

(2) To investigate the FDI environment in China - from the past, present to the future, and to see why FDI is becoming more important in China;

(3) To identify the Japanese changing global investment pattern by geographical

[2] "平成４年度における対外及対内直接投資状況，"大蔵省国際金融局，["Japanese Foreign Direct Investment and FDI in Japan in 1992," *Ministry of Finance, Japan*,] 3 June 1993, p. 2.

areas and industries;

(4) To analyze the Japanese past and current investment strategies in China, and to examine why the role of Japanese investment is becoming more significant;

(5) To evaluate the importance of China in the Japanese global investment strategies and the impact of Japanese investment in China to the Japanese economy itself;

(6) To find out what are the problems faced by Japanese direct investors in China;

(7) To project the trend and future direction of Japanese investment in China.

CHAPTER II

METHODOLOGY

2.1 RESEARCH DESIGN

This is an exploratory research to understand the approaches of Japanese investment in China and to examine the experience and problems faced by those Japanese companies. The trading and investment data of the past five to ten years would be assembled and consolidated. Views and opinions from different reports would also be integrated, analyzed and commented. Conclusions would be made to project the future directions of Japanese investment in the PRC.

2.2 TOPIC DEFINITION AND ASSUMPTION

Foreign Direct Investment (FDI) can be defined as the *control* of a company in one country by an organization based in another country. The amount of ownership share necessary for control is not clear-cut but depends on agreement between the investing parties.

The People's Republic of China (PRC) refers to the mainland China founded in 1949 and ruled by the Chinese Communist Party, excluding Hong Kong and Taiwan. This report uses the word "China" as a synonym for the PRC.

When doing the analysis, we assume that the China's open door policy would continue. It is because any political fluctuation would have significant changes to the investment environment.

2.3 DATA COLLECTION

The information and statistical data mainly come from secondary sources. An extensive literature review would be conducted. Information is collected from:

(1) various business and management journals from the systems Business Periodicals Ondisc (BPO) and ABI/Inform database in different university libraries;

(2) current newspaper clippings;

(3) various statistical reports from China in the Universities Service Centre;

(4) related survey reports; and

(5) direct contact with appropriate trade development agencies such as Japan External Trade Organization (JETRO), Hong Kong.

2.4 Treatment of the Data

The statistical data collected would be analyzed in order to find out the Japanese investment patterns and strategies in China. These would be matched against the Chinese FDI policies and compared with other investing countries' approaches. Then the trends and future directions would be projected. Some current issues, problems and views from different trade executives and scholars would also be discussed.

2.5 Limitations and Obstacles

There are some practical limitations and obstacles on this research:

(1) Some information and data from different sources are conflicting. In particular, Mr. Richard Hornik - Time magazine's Beijing bureau chief (1985-87) and Southeast Asia bureau chief (1991-93), blames many of today's bullish forecasts about China's economic future use inaccurate Chinese official statistics without a blush. Any investor who takes the statistics into account would certainly want far higher returns to offset the risks.[3] To resolve the problem, we have to evaluate the varying authenticity of the sources, to examine them in the light of the environments, the social, business, or political climate, or other socioeconomic backgrounds from which they emerge.

---

[3]Richard Hornik, "Lies, Damn Lies and Chinese Statistics," *The Asian Wall Street Journal*, January 25, 1994, p. 6.

(2) Some statistics are not up-to-date or even in different bases. In addition, the definitions of terms could vary in different articles. Also the information is available in three languages - English, Chinese and Japanese. We have to search many different sources to update the information and make a lot of effort to convert the statistics and terms to a common basis for comparison;

(3) The environment and policies in China are changing with time frequently. The collected data might become outdated with such moving target. We have to update the data constantly to keep them current.

(4) We have to make allowances for the personal bias of different research reporters.

CHAPTER III

GENERAL BACKGROUND THEORIES OF FDI

The following gives some of the general background theories of FDI. Although it may not be comprehensive, it does help us to identify the patterns and factors in the practical world more easily.

In terms of geographical area, investment can be classified into two forms: (1) Gross Domestic Investment; and (2) Foreign Investment. Foreign Investment can further be subdivided into two types: (1) Foreign Direct Investment (FDI); and (2) Foreign Portfolio Investment (FPI). The factor that distinguishes direct from portfolio investment is that *control* must follow direct investment, while portfolio investment is used primarily for financial purposes only.[4] FDI can be carried out in the forms of (1) Equity Joint Ventures, (2) Contractual Joint Ventures, (3) Wholly Foreign Owned Companies or, (4) Joint Exploration.[5] These are collectively called Foreign-Funded Enterprises (FFEs) in this report.

---

[4]Joseph Battat, "Foreign Investment in China in the 90s: Developing Trends," *East Asian Executive Reports*, August 15, 1991, p. 15.

[5]"Foreign Investment in the PRC, 1991-92," *JETRO China Newsletter*, Jan.-Feb. 1993, p. 19.

Equity Joint Ventures are limited liability companies whose profit distribution is determined by the equity contributions of the various parties, while for Contractual Joint Ventures, the rights and liabilities of various parties' share are set out in a contract, as well as each party's share of goods produced and profit generated. Normally, contractual joint venture lasts for 10 to 30 years with a possible extension to 50 years. Wholly Foreign Owned Companies are wholly owned by foreign companies. In terms of operation, FFEs could also be classified into (1) processing and assembly agreement, and (2) compensation type. For processing and assembly agreement, usually the China side would provide factory premises, power and labour, while the foreign party supplies raw materials or knock-down parts. Finished goods, after paying a processing fee to China parties, will go to the foreign party for sale in its own market. This is a very common form of Hong Kong investors who have shifted much of their production in the early 1980s. For compensation type, foreign investors provide a combination of services, equipment, training and technological know-how. In return, the foreign party can receive return payment over a period of two to five years. This is also called the "product buy-back" trade.[6]

Foreign Direct Investment and Merchandise Trade are the two most important forms of foreign business activities. They are closely related. Intuitively, FDI is regarded as a substitute for exports. However, this may not be the case. On the contrary, FDI often stimulates trade movement due to a need for domestic operating units to ship materials and components to their foreign facilities for use in a finished product. The

---

[6]W. K. Anthony Wong et al, *A Profile of The People's Republic of China*, March 1993, p. 7.

finished products could also be shipped back to the investing countries.

Two main reasons that firms engage in FDI instead of merely export are: (1) to expand markets; and (2) to acquire supplies or resources.[7]

For market-expansion investments, they may be motivated by the followings:

(1) Transportation increases cost so much that it becomes impractical to export some products;

(2) Some products are perishable such as food;

(3) The cost for further local expansion is too high. This may be due to that the domestic production capacity is saturated or the local currency value is too high, which rises the factor cost too much, and in turn affects the firm's global competitiveness. This is particularly true when the technology is of small-scale process;

(4) Imports are highly restricted; and

(5) Consumers prefer domestically made products because of nationalism or after-sales services.

For resource-seeking investments, they may be motivated by the followings:

(1) Vertical integration is needed to secure production;

(2) Rationalized production is adopted to produce different components or different products in different countries in order to take advantages of different factor cost;

(3) Firms want to gain better access to production factors; and

---

[7]The theories are partially adapted from - John D. Daniels and Lee H. Radegaugh, *International Business Environments and Operations* (Massachusetts: Addison-Wesley, 1992), pp. 12, 210-222.

(4) Governments give political incentives to direct investors to gain advantages over other countries.

Many investments are made because of interrelated multiple motives.

FDI can be carried out in two forms - by acquiring an interest in an existing operation or by constructing new facilities. The advantages of acquiring include (1) avoidance of start-up problems; (2) an easier financing situation; and (3) not adding capacity in existing market. The advantages of constructing new facilities include (1) no carry-over of past problems; and (2) no need to analyze and find a desirable firm.

CHAPTER IV

SINO-JAPANESE ENVIRONMENT AND TRADE PATTERN

4.1 JAPAN'S ECONOMIC ENVIRONMENT

In the Second World War, Japan's industrial facilities were largely destroyed. However, its economy recovered quickly by applying the outward-oriented development strategies, having a superior performance in export, economic development, and employment. Investment was also huge. In the last five years of 1980s, Japanese investment accounted for 35.6% of its GDP while the United States was investing 17%.[8] Such a high ratio of investment to GDP and the adoption of efficient industrial techniques resulted in strong real growth rates, particularly in the 1960s helped by high standards of education, good labour-management relations and government guidance for selected industries. Japan thus emerged as one of the world's economic superpower. However, the Japan's economy has been not so good recently. Table 4.1 illustrates several Japan's economic indicators.

[8] Lester Thurow, *Head to Head - The coming Economic Battle among Japan, Europe, an America* (London: Nicholas Brealey Publishing Limited, 1993), p. 127.

Table 4.1

Japan's Economic Indicators

(* Forecast values)

	1987	1988	1989	1990	1991	1992
GDP (US$ bil.)	2,407	2,897	2,869	2,925	3,341	3,651
Population (mil.)	122.2	122.7	123.2	123.6	124.0	124.5
GDP per head ($ '000)	19.69	23.60	23.29	23.67	26.94	29.34
Real GDP growth (%)	4.1	6.2	4.7	4.8	4.3	1.1
Inflation (%)	0.1	0.7	2.2	3.0	3.3	1.6
Exchange rate ¥:$	144.6	128.2	138.0	145.0	135.0	127.0
Trade balance ($ bil.)	96.4	95.0	76.9	63.5	103.0	132.3

	1993	*1994**	*1995**	*1996**	*1997**	*1998**
GDP (US$ bil.)	4,225	*4,326*	*4,670*	*5,108*	*5,552*	*5,916*
Population (mil.)	124.8	*125.2*	*125.6*	*125.9*	*126.3*	*126.7*
GDP per head ($ '000)	33.85	*34.55*	*37.19*	*40.56*	*43.959*	*46.712*
Real GDP growth (%)	**0.0**	*0.5*	*2.0*	*3.1*	*2.9*	*3.0*
Inflation (%)	1.2	*0.6*	*0.7*	*0.8*	*2.3*	*1.2*
Exchange rate ¥:$	111.0	*110.0*	*105.0*	*100.0*	*97.0*	*95.0*
Trade balance ($ bil.)	**141.0**	*115.5*	*107.3*	*97.4*	*88.9*	*82.3*

Source: *Japan - EIU Country Forecast 1st quarter 1994* (London: The Economist Intelligence Unit Limited, 1994), pp. 20-21.

From the table, we can see that the real economic growth in 1993 was 0%. The huge trade surplus rose to US$141 billion. The yen became too strong. In fact Japan's recession began three years ago with the collapse of stock and land prices, that is, what we call the "collapse of the bubble economy". To deal with the recession, Japanese government introduced several measures, which included (1) bringing forward public works spending, (2) implementing measures to lower the investment tax burden, (3) using government fiscal investment and loan programmes to help small- and medium-sized companies weather the slow-down, and (4) improving the quality of life through fiscal steps.[9] Recently, Mr Hosakawa (the former Japanese Prime Minister) has planned an economic stimulus package - a six trillion yen income tax cut, combined with a controversial 7% "national welfare tax", and another 10 trillion yen or so in public spending.[10] Nevertheless, the Economist Intelligence Unit (EIU) forecasts the Japanese economic growth is gloomy and will not begin to recover strongly until 1995 (refer to table 4.1). In the short term, business confidence will remain low, reflecting weak financial markets, the strength of the yen and sluggish growth in private consumption.

Critic says that the age of expansion of the Japanese economy is coming to an end. It is now moving into a new era where the Japanese businessmen should emphasize on maintaining stability. Foreign direct investment is a way out that can sustain Japan's economic growth to a certain extent. Is there a market with the potential for growth which can buy the massive production facilities and other complex products? If yes, where is it? Casting an eye over the various world markets with this question in mind, it becomes apparent that the Chinese market can probably support the Japanese economy and ensure its future prosperity. That is a major reason for Japan to invest in China.

---

[9]K. John Fukuda, *Japanese Management in East Asia and Beyond* (Hong Kong: The Chinese University Press, 1993), pp. 21,22.

[10]Alan Reynolds, "A Taxing Solution to Japan's Recession," *The Asian Wall Street Journal*, February 4-5, 1994, p. 8.

4.2 CHINA'S ECONOMIC ENVIRONMENT

The People's Republic of China was founded in 1949 by the Chinese Communist Party. In 1976, Mao Zedong died, and his widow and her cohorts (the so-called Gang of Four) were arrested. Deng Xiaoping has become the 'paramount' political figure since 1977. In 1978, the Party line was redirected by Deng from class struggle to the road of socialist four modernizations, namely, agriculture, industry, national defence and technology. In 1979, the country started the "open door" policy.

After that, the Chinese economy experienced three booms. The first boom was in 1985. The government then turned to a policy of retrenchment. The 1988 boom ended with the June 4th Tiananmen Square Incident in 1989. In 1992, with Deng Xiaoping's "grand tour of the South" and the subsequent decision of the 14th Party National Congress in October to shift to a "socialist market economy" (meaning an economy based on public ownership, but run along market economic principles), the Chinese have come out with the basic policies for drastically changing the way the economy is run. Great progress has been shown in the policy of economic liberalization in particular. However, the economy became overheated again. In May 1993, financial austerity measures were taken to cool the economy. Interest rates on bank deposits were raised twice, in May and July. Therefore, the key economic issue always facing China's leadership is how to liberalise the economy further without sparking an inflationary spiral and another period of overheating that causes shortages of raw materials and infrastructure problems.

Table 4.2

China's Economic Indicators

(Forecast values)*

	1987	1988	1989	1990	1991	1992
GNP (US$ bil.)	303.6	378.0	424.8	369.9	380.1	435.9
Population (bil.)	1.09	1.11	1.12	1.14	1.16	1.17
GNP per head ($)	281	343	378	327	329	372
Real GNP growth (%)	10.9	11.3	4.3	4.0	7.7	13.0
Urban inflation (%)	9.1	21.4	17.6	3.7	7.7	8.6
Exchange rate Rmb:$	3.72	3.72	3.77	4.78	5.32	5.51
Trade balance ($ bil.)	-1.7	-5.3	-5.6	9.2	8.7	5.2

	1993	*1994**	*1995**	*1996**	*1997**	*1998**
GNP (US$ bil.)	528.5	*449.1*	*498.1*	*560.5*	*629.1*	*708.4*
Population (bil.)	1.19	*1.21*	*1.22*	*1.24*	*1.26*	*1.28*
GNP per head ($)	444	*372*	*407*	*451*	*499*	*554*
Real GNP growth (%)	**13.0**	*9.0*	*8.8*	*8.6*	*7.9*	*8.0*
Urban inflation (%)	**20.0**	*16.0*	*9.0*	*12.0*	*10.0*	*10.0*
Exchange rate Rmb:$	**5.83**	*8.80*	*9.50*	*10.00*	*10.40*	*10.60*
Trade balance ($ bil.)	-7.8	*-10.5*	*-8.9*	*-8.5*	*-7.2*	*-5.6*

Source: *China - EIU Country Forecast 1st quarter 1994* (London: The Economist Intelligence Unit Limited, 1994), pp. 18,19.

Table 4.2 illustrates several China's economic indicators. China's countrywide inflation in 1993 was 13%. The urban inflation was as high as 20%. The GNP growth was 13%. Concerning the exchange rate, on December 29, 1993, the Chinese government announced the official exchange rate and the exchange rate prevailing at the 18 foreign currency swap centres to be unified on January 1, 1994. The Foreign Exchange Certificates (FECs) was going to be phased out. The value of the Renminbi (Rmb) against other currencies is no longer officially set by the government, but results from the interplay of market forces with government intervention in the currency market. At the end of December 1993, the official rate stood at Rmb5.8:US$1, while the swap rate was approximately Rmb8.7:US$1. The unification of the two rates at the swap rate effectively devaluated the official rate by 50% For economic forecast, the political bureau of the Communist Party has issued targets for 1994 which expects to slow down the countrywide inflation rate at below 10% and economic growth at 9%. Policies such as tight control on the issue of new money and on government spending are adopted. China also issued bonds to cover its budget deficit instead of printing new money, and invested more in agriculture to improve supplies and reduce increases in food prices.[11] For instance, on February 3, 1994, China has successfully launched a US$1 billion global bond issue rated at A-minus by Fitch Investor Services. The 1994 Treasury bond issue has also been enlarged to a total of Rmb100 billion.[12]

4.3 SINO-JAPANESE TRADE PATTERN

According to the reports from the Customs General Administration, China's total export and import in 1993 reached a value of US$195.72 billion, accounting for almost 40% of China's GNP. Imports rose 29% in 1993 to US$103.95 billion, while

[11]"China's Central Bank Chief Says Inflation Will Decline in 1994, 1995," *The Asian Wall Street Journal*, March 7, 1994, p. 4.

[12]*China - EIU Country Forecast 1st quarter 1994* (London: The Economist Intelligence Unit Limited, 1994), p. 9.

exports rose 8% to US$91.77 billion.[13] As shown in table 4.3, the position of foreign funded enterprises (FFEs) in China's foreign trade has been further strengthened. Its percentage in the total imports and exports increased from 26.3% in 1992 to 34.3% in 1993. In other words, the increase in FDI could actually pop up the trade figures to a large extent. It was because many FFEs were of processing and assembly type. They imported their equipment during establishing periods. After processing and assembling parts, they exported the majority of the finished products. Therefore, there was a steady growth in imports and exports of FFEs along with the increase in investment in China. Products of FFEs with high export ratios included electronic products, textile products and apparel, and footwear.

Table 4.3

Trade of Foreign Funded Enterprises (FFEs) in China, 1993

(Unit: US$ bil.)

	Amount	% Δ over 1992	% of China's total foreign trade
Exports by FFEs	25.24	45.5	27.5
Imports by FFEs	41.83	58.6	40.2
Total by FFEs	67.07	53.3	34.3

Source: "China's Foreign Trade in 1993 over US$195B," *China Economic News*, February 21, 1994, p. 12.

In 1993, trade between Japan and China reached US$39.04 billion, up 53.9% over 1992.[14] Exports to Japan was US$15.79 billion while imports was US$23.25

---

[13]"China Says Trade Balance Swung to a Deficit in '93," *The Asian Wall Street Journal*, January 10, 1994, p. 3.

[14]"China's Foreign Trade in 1993 over US$195B," *China Economic News*, February 21, 1994, pp. 11-13.

billion.[15] According to the Chinese Vice-Premier and Central Bank Chief Zhu Rongji, the total trade figure could have a ten-fold increase up to US$390 billion within ten years.[16] Among Japan's trade partners, China remained in second place after the U.S. in terms of imports, but rose from eighth to sixth place as a target for exports. In terms of total trade, China rose from 1992's fifth place to second place in 1993, pulling ahead of Germany, Taiwan, and South Korea. Today, China is Japan's second largest trade partner, just behind the U.S., while Japan has replaced Hong Kong as China's largest trade partner. Table 4.4 shows the China's largest trade partner in 1993 and table 4.5 shows the trade figures between Japan and China up to 1993. Table 4.4 comes from the Chinese statistics while table 4.5 from the Japanese statistics.

---

[15] "China Says Japan Top Trading Partner," *The Asian Wall Street Journal*, January 18, 1994, p. 3.

[16] "中日十年內雙邊貿易，朱鎔基料可增長十倍，"明報， [Zhu Rongji expects trade between China and Japan could have a ten-fold increase within ten years," *Ming Pao*,] February 26, 1994, p. A9.

Table 4.4

China's Largest Trade Partners in 1993

(Unit: US$ mil.)

Region	Trade Amount
Japan	39.04
Hong Kong	32.54
United States	27.65
EEC (including Germany US$10 billion)	26.10
Taiwan	14.39
Economic Alliance of Southeast Asia	10.68
Republic of Korea	8.22
Russian Federation	7.68

Source: "China's Foreign Trade in 1993 over US$195B," *China Economic News*, February 21, 1994, p. 12.

Table 4.5

Japan-China Trade, 1987 to 1993

(Unit: US$ mil.)

Year	Exports to China	% Δ	Imports from China	% Δ	Total	% Δ	Balance
1987	8,250	-16.3	7,401	30.9	15,651	0.9	848
1988	9,476	14.9	9,859	33.2	19,335	23.5	-383
1989	8,516	-10.1	11,146	13.1	19,662	1.7	-2,630
1990	6,129	-28.0	12,054	8.1	18,183	-7.5	-5,924
1991	8,593	40.2	14,216	17.9	22,809	25.4	-5,623
1992	11,949	30.1	16,953	19.3	28,902	26.7	-5,004
1993	**17,270**	44.5	**20,560**	21.3	37,830	30.9	-3,290

Source: "China now Japan's second largest trade partner," *JETRO China Newsletter*, Sept.-Oct. 1993, p. 21.
"Japan-China ties warm amid tensions with U.S.," *The Asian Wall Street Journal*, March 21, 1994, pp. 1,10.

It should be noted that the figures of most China's major trading partners differ greatly from official Chinese figures. For instance, in 1993, China's export to Japan was US$15.79 billion while Japan recorded an import of US$20.56 billion! Import from Japan was US$23.25 billion while Japan's export was only US$17.27 billion! Both parties claimed to have a trade deficit (China claimed a deficit of US$7.46 billion while Japan claimed a deficit of US$3.29 billion) because both wanted the counter-parties to buy more of their own goods. One reason accounted for such discrepancy was that China excluded trade that passed through Hong Kong, treating such trade as being with Hong Kong only, while other countries judge imports by country of origin. However, according to Dr. Friedrich Wu - vice president and head of economic research at the Development Bank of Singapore, who examined "errors and omissions" in China's balance of payments nearby, and found evidence of US$8 billion disappearing in 1992. He suspected that enough money leaked out through phony import and export invoices.[17] Although the figures were conflicting, both sides showed the increasing trend for bilateral trade. Such increase can be accounted for as follows:

The reasons behind the increase in exports to China were: (1) the growth in domestic Chinese demand (13% growth in real GNP in 1993); (2) the start of large-scale projects under the eighth five-year plan (1991-1995), and the increase in contracts for plant exports to China; (3) the surge in investment in China in 1993, which led to an increase in imports by Japanese affiliates in China for machinery, equipment, and materials.

[17]Friedrich Wu, "China's Rising Speculative Outflows," *The Asian Wall Street Journal*, March 7, 1994, p. 6.

The reasons behind the increase in imports from China were: (1) the increase in reverse imports from Japanese affiliates in China and consignment processing deals; (2) the shift in production bases from the Asian Newly Industrialized Economies (NIEs) - South Korea, Taiwan, Hong Kong and Singapore, to China.

Below we try to break down the Sino-Japanese exports and imports by commodity. As mentioned before, the surge in FDI in China brings a large demand for machinery and equipment. Table 4.6 shows machinery and equipment accounted for 57.5% of Japan's exports to China in the first half of 1993, rising 67.4% compared with the previous year. Passenger cars (within the transport equipment category), in particular, rose by 711.8% (volume basis, 22,700 cars, January - May, 1993). Facsimile machines (within the electrical machinery category) rose by a remarkable 515.8%. Steel rod for building construction (within the metal articles category) rose spectacularly by 1,639% (408,293 tons, January - May, 1993), which meant Chinese steel producers were unable to meet the domestic demand and has had to rely on imports.

Table 4.6

Japan's Exports to China, by Commodity (First Half 1993)

(Unit: US$ mil.; MT = metric tons)

Commodity	Unit	Quantity	Value	% of overall export
1. Foodstuffs	-	-	12.8	0.2
2. Raw Materials	-	-	186.3	2.4
3. Mineral Fuels	-	-	103.6	1.3
4. Industrial Products	-	-	7,451.0	95.2
Chemical products	-	-	491.5	6.3
Machinery and mechanical apparatus	-	-	4,499.0	57.5
General machinery	-	-	2,011.7	25.7
Electrical machinery	-	-	1,179.9	15.1
Transport equipment	-	-	1,100.6	14.1
Precision instruments	-	-	206.8	2.6
Textile articles	MT	27,323	508.5	6.5
Metal articles	1,000 MT	3,391	1,604.5	20.5
Total Exports	-	-	7,826.7	100.0

Source: "Japan's Exports to China, by commodity," *JETRO China Newsletter*, Sept.-Oct. 1993, p. 23.

Concerning the Japan's imports from China, table 4.7 shows industrial products accounted for a 61.5% share of Japan's total imports from China in the first half of 1993. "Textile articles" was the traditional leading group because of its relative low price. Oil (within the mineral fuels category) is one of China's main sources of foreign currency, so China is making efforts to export it, but ironically, the domestic energy supply and demand situation is becoming pinched because of the insufficient infrastructure.

Table 4.7

Japan's Imports from China, by Commodity (First Half 1993)

(Unit: US$ mil.; MT = metric tons)

Commodity	Unit	Quantity	Value	% of overall export
1. Foodstuffs	-	-	1,431.7	16.3
2. Raw Materials	-	-	713.9	8.1
3. Mineral Fuels	-	-	1,200.0	13.7
4. Industrial Products	-	-	5,398.4	**61.5**
Chemical products	-	-	355.6	4.1
Machinery and mechanical apparatus	-	-	774.8	8.8
Textile articles	MT	225,271	2,649.6	30.2
Metal articles	1,000 MT	135	173.9	2.0
Processed monument & building stone	MT	161,941	76.5	0.9
Leather articles (ex. trunks and bags)	MT	2,640	32.0	0.4
Miscellaneous articles	-	-	1,172.7	13.4
Total Imports	-	-	8,771.3	100.0

Source: "Japan's Exports to China, by commodity," *JETRO China Newsletter*, Sept.-Oct. 1993, p. 24.

When talking about Japanese trade, we cannot stop mentioning the Japan's trading companies - *sogo shosha*. They are the cornerstone of Sino-Japanese trade. The top-five trading companies - Itohchu, Marubeni, Mitsui, Mitsubishi and Sumitomo - accounted for 50-60% of the bilateral trade between China and Japan. They dominate in the trading of oil, coal, steel and foodstuffs. Each company has more than a dozen joint ventures in China.

For prediction about the trend of Sino-Japanese trade, Japan's exports to China should continue to be strong. While there are negative factors such as: (1) the delays in opening of letters of credit due to the shortage of foreign currency in China; (2) the possibility of the postponement or cancellation of projects due to the fiscal belt-tightening and resultant shortage of funds in China, there are positive factors such as:

(1) the continued high level of economic growth and domestic demand in China; (2) the continued demand for capital goods and production goods for projects under the eighth five-year plan. Japan's imports from China should also increase steadily despite the slow pace of recovery of the Japanese economy due to: (1) the direct investments of Japanese companies in China and consignment processing and the increased number of new projects; (2) the continued increase in investment by Hong Kong, Taiwan, South Korea, and other countries in China and the consequent shift of imports from the Asian NIEs to imports from China; and (3) the continued increase in Chinese industrial production and the improvement in quality of Chinese products.

CHAPTER V

THE FDI ENVIRONMENT IN THE PRC

Here we address the historical development, policies, patterns and incentives for FDI in China.

5.1 Development of FDI in China

Figure 5.1 shows the trends in direct investment in China. The data are also tabulated in table 5.1. Up to now, China's FDI development can be identified into six stages:

First is the starting stage. In 1979, the country started the policy of opening up its economy. The government emphasized creating a basic legal framework and developing a few special economic zones. However, its domestic economy was still recovering from the turmoil of the Cultural Revolution, only a limited amount of FDI was attracted.

Second is the first booming stage. From 1983 to 1985, FDI approval criteria and administrative procedures were developed. Foreign investors were given access to the domestic market and to local financing. Fourteen 'open cities', covering the coastal areas, were added to the original four Special Economic Zones [SEZs] as locations with favourable conditions for FDI. As a result, foreign investment surged. Appendix 1 summarizes the development of the priority investment areas in China from 1979 to 1994.

Figure 5.1

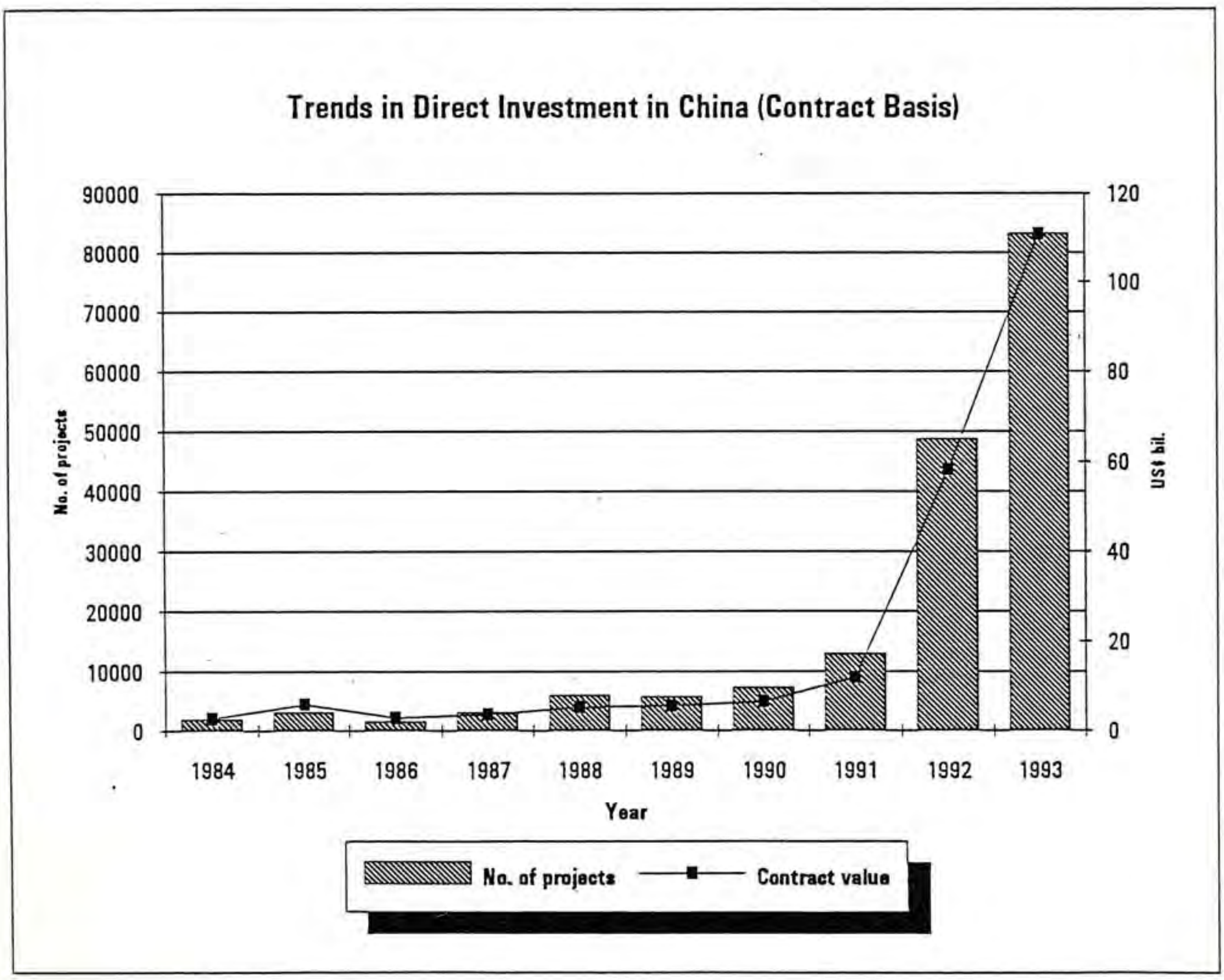


Table 5.1

Trends in Direct Investment in China (Contract Basis)

(Unit: US$ bil.)

Year	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
No. of projects	1856	3073	1498	3073	5945	5779	7273	12978	48764	83265
Contract value	2.65	5.93	2.83	3.71	5.30	5.6	6.60	11.98	58.12	110.85
Implemented value	1.26	1.66	1.87	2.31	3.20	3.39	3.49	4.37	11.00	25.75
Utilization rate (%)	47.5	28.0	66.1	62.4	60.3	60.6	52.9	36.4	18.9	23.2

Source: "Recent Trends in investment and operations of foreign affiliates," *JETRO China Newsletter*, May-June 1993, p. 2.
"Foreign Investment in the PRC, 1991-92," *ibid.*, Jan.-Feb. 1993, p.16.
Joseph Battat, "Foreign Investment in China in the 90s: Developing Trends," *East Asian Executive Reports*, August 15, 1991, p. 12.
"Foreign Investment Soared in China in '93," *The Asian Wall Street Journal*, February 2, 1994, p.3.

Third is the retrenching stage. From 1986 to 1987, however, faced with rising inflation and other economic problems at home, the government turned to a policy of retrenchment. More restrictions were imposed on foreign investors' access to local financing and foreign exchange. The overall growth of FDI was thus slowed. As shown in table 5.1, the contract value dropped from US$5.93 billion in 1985 to US$2.83 billion in 1986. This led to a sharp rise in utilization rate from 28% to 66.1%.

Fourth is the second booming stage. In the spring of 1988, a call for development of the 'Golden Coast' once again spurred domestic reform and FDI utilization. Unlike previous efforts for development and reform, less emphasis was put on high-technology and more on export-oriented projects. Another FDI boom resulted.

Fifth is the stagnant stage. Economic problems and an austerity program had curtailed foreign investment in China even before the June 4th Tiananmen Square incident in 1989. Since 1989, authorities have adopted new, stricter project approval criteria that reemphasized high-technology and export-oriented production.

Sixth is the third booming stage. In 1992, aided by the "grand tour" of the South by Deng Xiaoping, local governments throughout China began actively soliciting investment from foreign companies. China thus experienced its third foreign investment boom after the previous two boom years of 1985 and 1988. Table 5.1 shows that in 1993, China received 83,265 investments, up 71% from the previous year and worth US$110.85 billion, up 91%.[18] During the 12-month period, China received a record-breaking amount of investment, comparable with the cumulative total in the 14 years from 1979 to 1992. By the end of September 1993, China have cumulatively approved the establishment of 153,580 FFEs with a total contracted foreign investment of US$192.96 billion, in which US$49.56 billion have actually been put in.[19] The increase reflected both foreign companies' enthusiasm for business opportunities in China, and the Chinese government's willingness to grant them greater access to the domestic market. Although the infrastructural projects are always the largest individual ones in China, the manufacturing projects still dominate in terms of aggregate investment amount. Appendix 2 shows the China's top ten FFEs (Manufacturing) in 1992. Note that Shanghai Volkswagen, Beijing Jeep and Guangzhou Peugeot are all auto makers in China.

[18]"Foreign Investment Soared in China in '93," *The Asian Wall Street Journal*, February 2, 1994, p. 3.

[19]"China's Biggest 500 FFEs (Productive) in 1992," *China Economic News*, December 13, 1993, p. 1.

Now, the situation is fluctuating. In May 1993, the Chinese came out with a fiscal belt-tightening policy to cool down the overheated economy. FDI was restricted. In November 1993, the rules were loosened and FDI boomed again. In the early 1994, the State Council tightened controls on construction, bank lending, the opening of development zones and the issuance of commercial stocks and bonds outside the government plan, in an attempt to wrestle inflation down from the dangerous level it reached in 1993. New fixed capital investment projects are forbidden.[20] However, many investors are now well-accustomed to ignoring government instructions and no longer under the government control.

Analyzing the figures in table 5.1, there are still some negative implications: (1) the average investment amount was around US$1.3 million, which means that China still has to make effort to attract the large projects it wants; (2) the actual foreign investment did not grow consistently with the amount approved, with an unimpressive low utilization rate of 23.2% in 1993; (3) the FDI in China normally accounts for only several percents of China's total investment. For instance, in 1989, the gross domestic investment in China was US$152 billion while FDI inflow was only US$3.4 billion - a mere 2.2% of China's total investment.[21]

---

[20]"China Bans New Investment Plans In Renewed Bid to Fight Inflation," *The Asian Wall Street Journal*, February 1, 1994, p. 4.

[21]Joseph Battat, "Foreign Investment in China in the 90s: Developing Trends," *East Asian Executive Reports*, August 15, 1991, p. 15.

5.2 Recent Policies for FDI in China

Recent policies for opening up China have been oriented in several directions:

First, there is the easing of restrictions on foreign investment in *tertiary industry* fields such as wholesaling and retailing, transportation, communications, trading, management consulting, insurance, real estate and finance. The most striking growth is in the real estate industry. Its development is so fast that which causes the economy of China to be overheated. Example is Hong Kong's Sun Hung Kai Real Estate in Beijing's Wangfujing. For retailing and trading, large shopping centres are also constructed. Example is the joint venture of Yaohan Co. and Shanghai Number One department store in the Shanghai Pudong district.

Second, moves are being made to gradually open up the *domestic market*. Meanwhile, the "administrative guidance" exercised to determine the export ratios of FFEs is being relaxed in the high-tech fields and inland areas. As a result, Motorola subsidiary producing cellular phones in Tianjin has obtained approval for domestic sale of 30% of its production, despite being a wholly foreign owned operation, due to the advanced technology and large scale of the project.

Third, in terms of China's regional development policy, great strides are being made in opening up *all regions* (not only coastal regions) economically. The Chinese government has developed geographical areas where foreigners may invest such as opening up the lower and middle reaches of the Changjiang river from the Pudong district of Shanghai all the way up to Chongqing, opening up the border regions in both North and South. By providing the same incentives for foreign investment as in the coastal cities, it is hoped that foreign investment will extend into the inland areas as well.

Fourth, there has also been a shift from management of foreign investment by region as in the past to *management by industry* gradually. Right now, China has already developed a large number of open economic zones, the five Special Economic Zones [SEZs], the 14 economic and technical development zones and the Shanghai Pudong district. At this stage, at the central government level, foreign investment is closely tied to industrial policy. Policies for its introduction are being clearly set down for each industry and concrete steps are being taken to encourage it, including steps in the spheres of tax and law. For example, in the area of retail business, the government allows investments of two to three companies in 11 regions (Beijing, Tianjin, Shanghai, Dalian, Qingdao, Guangzhou, and the five SEZs) and permits up to 30% of the products sold to be foreign products.

Fifth, the central government is also *delegating* more authority to the municipalities, counties and towns. There has been an increase in independent economic zones and mini-industrial estates established by county governments in the suburbs of the cities.

Sixth, high marks have also been given to China for its on-going reevaluation of previously promulgated foreign investment related *laws and regulations* as the situation in China changes. For example, regulation of fiscal management and the accounting system for FFEs were revised and supplemented in June and July of 1992. The amendments made to the joint venture law in April 1990 allow ventures to extend their contract periods easily. In addition, the various internal regulations which caused so much trouble in investments are now being abolished in stages. A 50-year usage right is permitted. China is also moving to permit secondary businesses of FFEs and the establishment of stock-holding companies.

5.3 Direct Investment Patterns in China

Due to the above policies, we could identify several trends: (1) in terms of sizes, the average contract value of projects grew in size; (2) in terms of investing country and region, investment from Asia, primarily the NIEs and Japan, is soaring; (3) in terms of Chinese regions being invested, coastal regions still dominate but foreign investment is now reaching into the inland areas. Below shows the details of the FDI patterns in China.

A breakdown by type of investment reveals a surge in equity joint ventures as shown in table 5.2. It might be due to (1) the large Chinese market with the result that the merits of joint ventures, which are allowed to sell a portion of their production on the domestic market, were reevaluated; and (2) the fact that there was a succession of large joint venture projects restarted. Cumulatively, by the end of September 1992, equity joint ventures were most important in terms of both number and value, accounting for 63% of the total number of projects. The project sizes were also growing. There was a striking increase in large scale strategic projects such as power stations, railways, highways, and other infrastructure projects, as well as petrochemicals, land development and aircraft industry. Up to now, the largest equity joint venture in China is the Guangdong Nuclear Power Joint Venture Company Ltd (GNPJVC) at Daya Bay. It was formed on January 24, 1985 by the Guangdong Nuclear Investment Company Ltd (GNIC) and the Hong Kong Nuclear Investment Company Ltd (HKNIC), a wholly owned subsidiary of China Light & Power Co. Ltd (CLP) of Hong Kong. The power plant has two pressurized water reactors (PWRs) of the 900 megawatt (MW) class. The total investment for the project is HK$28.7 billion (US$3.7 billion)[22].

Table 5.2

Direct Investment in China, by Type (Contract Basis)

(Unit: US$ bil.)

Type	1990		1991		Cumulative as of End of Sept. 1992	
	No.	Value	No.	Value	No.	Value
Total direct foreign investment	7,273	6.60	12,978	11.98	69,886	82.94
Equity Joint ventures	4,091	2.70	8,395	6.08	43,798	35.91
Contractual joint ventures	1,317	1.25	1,778	2.14	14,570	24.90
Wholly foreign owned companies	1,860	2.44	2,795	3.67	11,437	18.17
Joint exploration	5	0.19	10	0.09	81	3.96

Source: "Foreign Investment in the PRC, 1991-92," *JETRO China Newsletter*, Jan.-Feb. 1993, p. 19. "Recent Trends in investment and operations of foreign affiliates," *ibid.*, May-June 1993, p. 4.

[22] *Some facts about Daya Bay* (Hong Kong: Guangdong Nuclear Power Joint Venture Co. Ltd, August 1989).

The law and legislation for equity joint ventures are rather complex. To illustrate just a bit, appendix 3 shows the general rules and requirement for the setting up of a joint venture business in China. In view of the regulation, the Chinese government indeed offer much freedom and confidence to the foreign investors. But still, there may have some restraint and some interference by the government, such as the need for approval of state authorities and administration for the industry and commerce for terminating business. For the detail about the law and regulation for a joint venture, it was stipulated in the "Regulation for the Implementation of the Law of the People's Republic of China on Joint Ventures using Chinese and Foreign Investment" (promulgated by the State Council on September 20, 1983).

Besides equity joint ventures, in recent years, however, there has also been an increase in investment in wholly foreign owned companies. Cumulative figures as of the end of September 1992 show these accounted for 16% of the number of projects or 22% of their value. The reasons for such increase were (1) the implementation of the Foreign Capital Enterprise Law in 1986 and of its enforcement regulations in 1988, which established the legal framework for wholly foreign owned subsidiaries, and (2) the desire of investors to avoid the various complications involved in joint ventures.[23]

[23] "Recent Trends in investment and operations of foreign affiliates," *JETRO China Newsletter*, May-June 1993, p. 3.

Figure 5.2

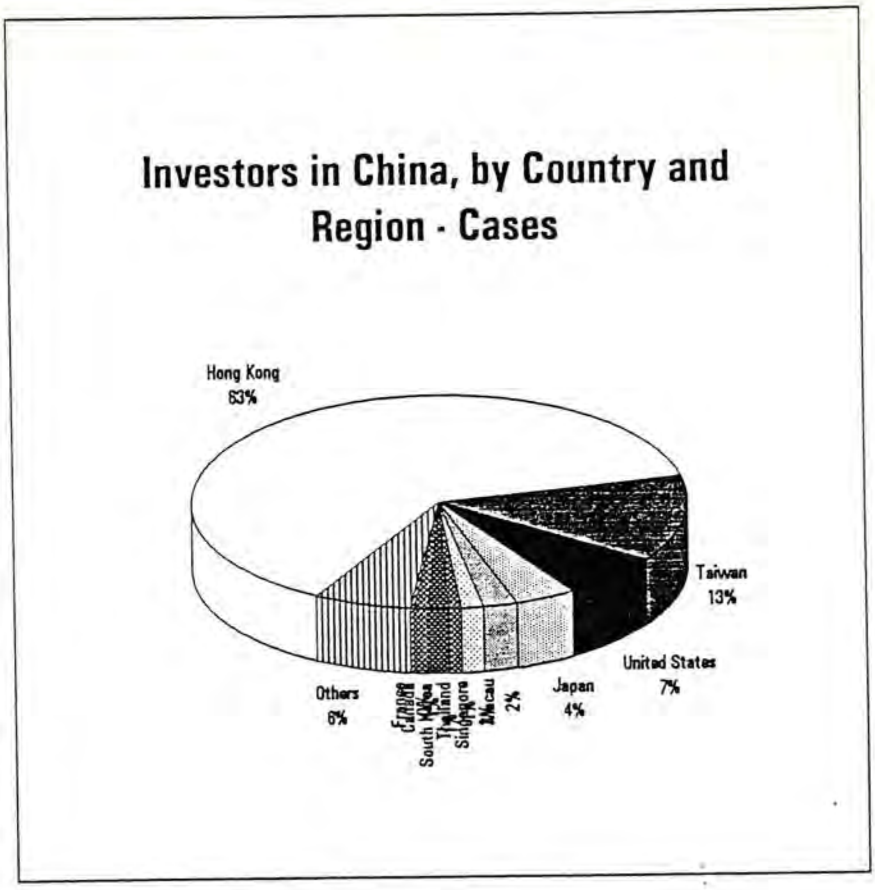
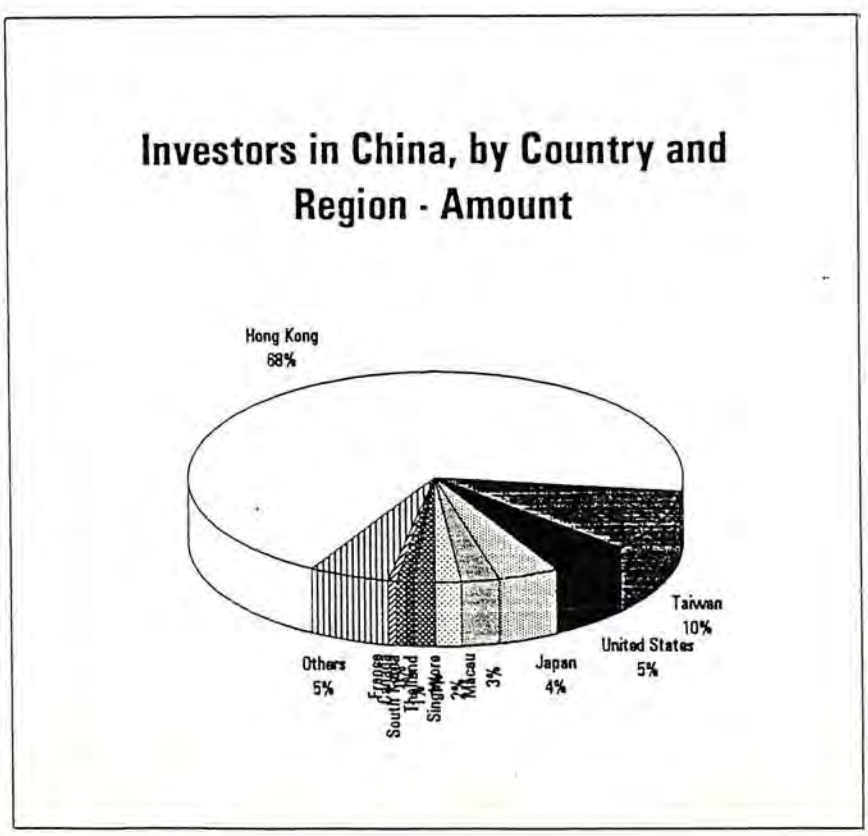


Figure 5.2 and 5.3 show the investors in China by country and region (contract value), in 1992. The number one investor was Hong Kong, number two Taiwan, and number three the United States, followed by Japan, Macau and Singapore as shown in table 5.3.

Figure 5.3



Cumulatively, Hong Kong was also number one. The second was the United States. Taiwan was the third and Japan was the fourth. It is noteworthy that the recent higher increase in investment from Taiwan relative to the United States has reflected the deepening economic relations between the mainland and the island.

Table 5.3

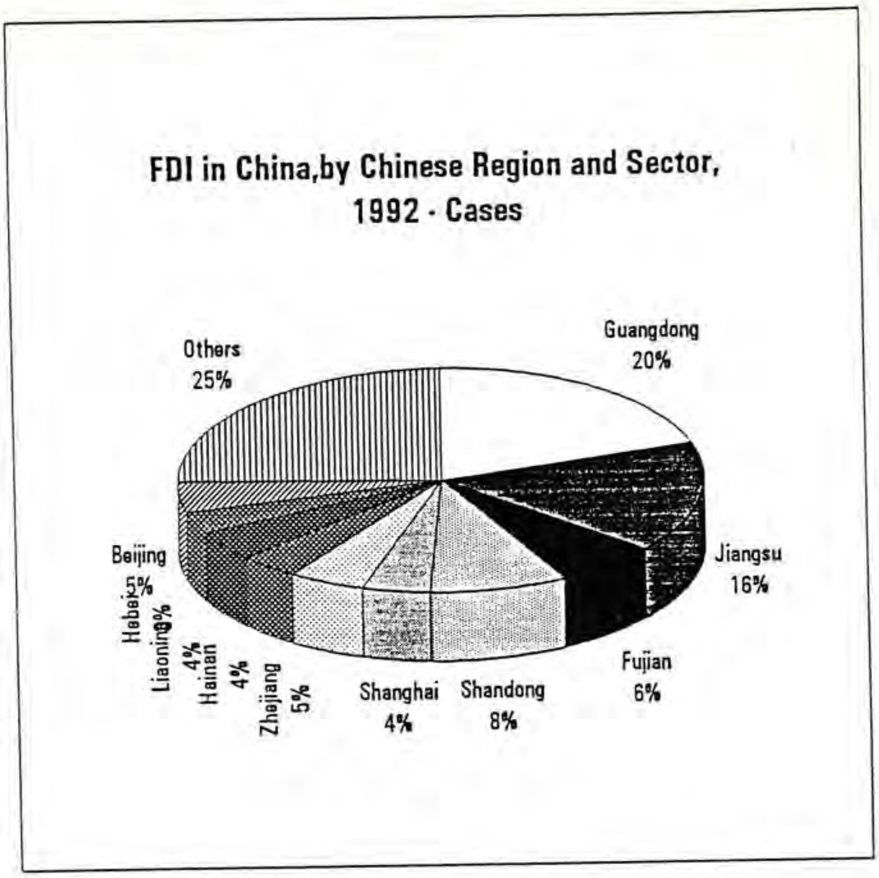
Direct Investment in China, by Country and Region (Contract Basis)

(Unit: US$ mil.)

Country/Region	1990		1991		1992	
	No.	Value	No.	Value	No.	Value
Hong Kong	4,751	3,833.34	8,502	7,215.10	30,781	40,043.8
Taiwan	1,103	889.97	1,735	1,388.52	6,430	5,543.4
United States	357	357.82	694	548.08	3,265	3,121.3
Japan	341	457.0	599	812.20	1,805	2,172.5
Macau	N/A	N/A	N/A	N/A	1,111	1,487.3
Singapore	72	103.49	169	155.21	742	996.6
Thailand	N/A	N/A	N/A	N/A	407	723.4
South Korea	47	45.68	230	137.48	650	417.0
Canada	N/A	N/A	N/A	N/A	394	315.5
France	N/A	N/A	N/A	N/A	140	288.6
Total	7,273	6,596.11	12,978	11,976.82	48,764	58,123.5

Source: "Foreign Investment in the PRC, 1991-92," *JETRO China Newsletter*, Jan.-Feb. 1993, p. 19. "Foreign Investment in China by Country and Region, 1992," *ibid.*, July - August 1993, pp. 19-20.

Figure 5.4



A look at the investment in China by province (contract basis) in figure 5.4 and 5.5 shows Guangdong remains ahead of all other provinces in 1992 with 20% of the total number of cases and an overwhelming one third of all investment received by the provinces.

Figure 5.5

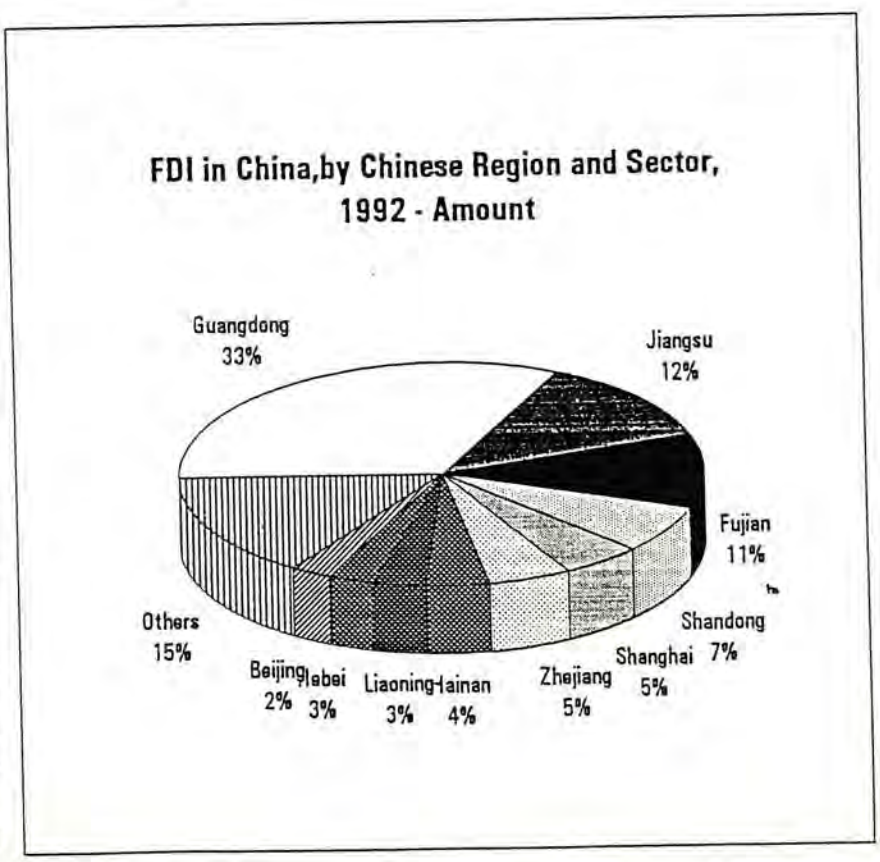


Table 5.4 shows Guangdong received investment amount of US$18,858.6 million with 9,769 cases in 1992. This was followed by Jiangsu, Fujian, Shandong, and Shanghai - all coastal regions. Guangdong received most of its investment from Hong

Kong and Macau, while Fujian received most from Taiwan.

Table 5.4

Direct Investment in China, by Chinese Region and Sector, 1992 (Contract Basis)

(Unit: US$ mil.)

Region/Sector	Cases	Amount
Guangdong province	9,769	18,858.6
Guangzhou city	1,193	4,497.5
Shenzhen city	1,553	2,495.0
Jiangsu province	7,854	7,161.6
Nanjing city	865	732.5
Fujian province	3,113	6,351.0
Xiamen city	443	1,697.9
Shandong province	4,109	3,919.6
Qingdao city	755	1,136.2
Shanghai city	1,999	2,903.3
Zhejiang province	2,338	2,863.0
Ningbo city	636	1,567.3
Hainan province	1,830	2,261.1
Liaoning province	2,147	1,949.2
Shenyang city	631	438.8
Dalian city	785	994.9
Hebei province	1,420	1,622.4
Beijing city	2,207	1,432.5
Total of local regions	48,125	57,874.3
Total	48,764	58,123.5

Source: "Foreign Investment in China by Country and Region, 1992," *JETRO China Newsletter*, July - August 1993, p. 22.

Table 5.5 shows the top five provinces/cities in terms of the number of investment projects received in 1992. Guangdong held an unshakable number one position, but recently investment has also been flooding into Jiangsu and Shandong provinces, where there are many rural enterprises. These rural enterprises are fast becoming partners for joint ventures and joint enterprises. With Hong Kong, Taiwan and

Macau accounted for 81% of FDI in China and most of the investments were in Guangdong Province, these areas (Hong Kong, Taiwan, Macau and Guangdong) are sometimes considered as an impressive 'South China Economic Sphere'.

Table 5.5

Five Top Provinces/Cities in Investment (No. of Projects)

1990		1991		1992	
Guangdong	3,042 projects US$2.69 bil.	Guangdong	4,554 projects US$4.91 bil.	Guangdong	9,769 projects US$18.86 bil.
Fujian	1,043 projects US$1.16 bil.	Fujian	1,219 projects US$1.45 bil.	Jiangsu	7,854 projects US$7.16 bil.
Jiangsu	393 projects US$220 mil.	Jiangsu	1,138 projects US$740 mil.	Shandong	4,109 projects US$3.92 bil.
Liaoning	371 projects US$490 mil.	Shandong	801 projects US$660 mil.	Fujian	3,113 projects US$6.35 bil.
Shandong	366 projects US$230 mil.	Beijing	727 projects US$290 mil.	Zhejiang	2,338 projects US$2.86 bil.

Source: "Foreign Investment in China by Country and Region, 1992," *JETRO China Newsletter*, July-August 1993, p. 22.
"Recent Trends in investment and operations of foreign affiliates," *ibid.*, May-June 1993, p. 4.

5.4 Incentives for Foreign Investors

Here we come to a basic question why foreigners like to invest in China. What are the competitive advantages of China compared with other countries? China has been able to attract foreign investors for a number of reasons. Key among these are:[24] (1) the actual and potential size of the domestic market and a pressing need for rapid

[24]Joseph Battat, "Foreign Investment in China in the 90s: Developing Trends," *East Asian Executive Reports*, August 15, 1991, p. 13.

industrialization; (2) the abundance of low cost labour; (3) the availability of natural resources and land space; (4) the proximity to East and Southeast Asia, an area that has been undergoing impressive economic growth; and (5) the less restrictive environmental protection regulations than in some neighbouring countries.

CHAPTER VI

JAPANESE GLOBAL INVESTMENT PATTERN

6.1 JAPANESE FDI PATTERN WORLDWIDE

Japanese FDI can be classified into three basic financial categories: (1) acquisition of securities; (2) loans and (3) establishment and expansion of overseas branches, as shown in table 6.1. Investment started to grow in the 1970's and accelerated in the 1980's. However, in the 1990's, the figures started to decline. According to Mikio Mori, director-general of the Japan External Trade Organization (JETRO), a Japanese bank had conducted a survey for 1,600 manufacturing companies in Japan early 1993, which indicated that 80% of respondents did not intend to invest more abroad. It is because many Japanese firms including banks and securities firms have been suffering from the so-called bubble economy, and they will be much more occupied with the restructuring of their own houses, at least for several years.[25]

[25]Kenneth Ko, "Japanese Firms hold back New China Funding," *South China Morning Post - Business Post*, October 9, 1993, pp. 1,12.

Table 6.1

Trends in Japanese Foreign Direct Investment

(Unit: Projects, US$ mil.)

Fiscal Year	Acquisition of Securities		Loans		Establishment and Expansion of Overseas Branches		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1951-80	12,799	17,634	7,698	16,958	914	1,309	23,949	36,497
1981	748	3,248	1,773	5,574	42	110	2,563	8,932
1982	765	3,375	1,742	4,180	42	149	2,549	7,703
1983	868	3,753	1,848	4,192	38	200	2,754	8,145
1984	828	4,595	1,636	5,340	35	221	2,499	10,155
1985	1,023	5,963	1,552	5,924	38	329	2,613	12,217
1986	1,419	12,546	1,728	9,208	49	566	3,196	20,320
1987	2,126	19,941	2,387	12,971	71	452	4,584	33,364
1988	2,725	28,638	3,263	17.801	89	584	6,077	47,022
1989	2,602	43,169	3,910	23,632	77	739	6,589	67,540
1990	2,249	38,507	3,565	17,598	49	806	5,863	56,911
1991	1,556	27,129	2,983	13,991	25	464	4,564	41,584
1992	1,397	21,667	2,318	12,110	26	360	3,741	34,138
Cumulative	31,105	230,167	36,403	149,480	1,495	6,289	71,841	386,530

Source: "Japanese Foreign Direct Investment and FDI in Japan in 1992," *Ministry of Finance, Japan*, 3 June 1993, p. 1.
W.C. Ernest Lee; and M.K. Waynie So, *Japanese Investment in Hong Kong Towards 1997 - Its Implications and Future Direction*, April 1992, p. 25.

Table 6.2 shows the Japanese FDI by industry. In FY 1992, the major overseas investment in manufacturing included chemical, electric appliances, transport equipment and machinery. Non-manufacturing industries still dominated the global investment. These included services, real estate, commerce, finance and insurance.

Geographically, Japanese FDI mainly concentrated in North America, Europe and Asia as shown in table 6.3. The United States was the most important Japanese FDI site because of the huge bilateral trade volume and amount, which demanded great commerce and services supports from the non-manufacturing industries. The large U.S consumer market also had great demand for electric appliances from the manufacturing industries (see table 6.4). However, North America is losing ground to Asia gradually. As the Japanese global investment is declining (from US$56.9 billion in FY 1990 to US$34.1 billion in FY 1992), investment in Asia has risen rapidly with a share increased from 12.4% in FY 1990 to 18.8% in FY 1992. The share of China in Japan's investment, on a value basis, has also risen from the 0.61% in FY 1990 to 3.13% in FY 1992 (see table 6.3).

Table 6.2
Japanese Foreign Direct Investment by Industry

(Unit: Projects, US$ mil.,%)

Industry		FY 1990			FY 1991			FY 1992			Cumulative FY 1951 - 1992		
		No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%
Manufacturing	Food	139	821	1.4	113	632	1.5	99	517	1.5	1,983	5,234	1.4
	Textile	200	796	1.4	242	616	1.5	311	428	1.3	2,387	5,043	1.3
	Lumber and Pulp	86	314	0.6	44	312	0.8	66	431	1.3	941	3,711	1.0
	Chemical	161	2,292	4.0	115	1,602	3.9	123	2,015	5.9	2,285	14,558	3.8
	Iron and Non-ferrous metals	137	1,047	1.8	124	907	2.2	115	824	2.4	2,268	12,040	3.1
	Machinery	135	1,454	2.6	129	1,284	3.1	129	1,104	3.2	2,565	10,320	2.7
	Electric Appliances	269	5,684	10.0	209	2,296	5.5	179	1,817	5.3	3,582	24,473	6.3
	Transport Equipment	100	1,872	3.3	60	1,996	4.8	60	1,188	3.5	1,201	14,065	3.6
	Others	301	1,207	2.1	302	2,666	6.4	236	1,732	5.1	3,975	14,537	3.8
	Subtotal	1,528	15,486	27.2	1,338	12,311	29.6	1,318	10,057	29.5	21,187	103,981	26.9
Non-manufacturing	Agriculture and Forestry	64	153	0.3	86	276	0.7	51	139	0.4	1,376	1,773	0.5
	Fishery	37	59	0.1	39	72	0.2	28	91	0.3	849	900	0.2
	Mining	100	1,328	2.3	90	1,003	2.4	80	1,270	3.7	1,460	18,812	4.9
	Construction	61	300	0.5	49	429	1.0	42	534	1.6	1,194	3,353	0.9
	Commerce	805	6,158	10.8	742	5,247	12.6	577	3,705	10.9	15,867	40,268	10.4
	Finance and Insurance	233	8,047	14.1	167	4,972	12.0	194	4,579	13.4	2,748	74,869	19.4
	Services	1,004	11,292	19.8	790	5,413	13.0	615	6,530	19.1	6,926	46,610	12.1
	Transportation	343	2,169	3.8	315	2,489	6.0	255	1,725	5.1	4,839	21,652	5.6
	Real Estate	1,637	11,107	19.5	922	8,899	21.4	555	5,147	15.1	7,916	59,895	15.5
	Others	2	8	0.0	1	10	0.0	-	-	-	3,146	7,533	1.9
	Subtotal	4,286	40,620	71.4	3,201	28,809	69.3	2,397	23,720	69.5	46,321	275,666	71.3
Overseas Branches		49	806	1.4	25	464	1.1	26	360	1.1	1,495	6,289	1.6
Real Estate		-	-	-	-	-	-	-	-	-	2,538	595	0.2
Total		5,863	56,911	100	4,564	41,584	100	3,741	34,138	100	71,541	386,530	100

Source: "Japanese Foreign Direct Investment and FDI in Japan in 1992." *Ministry of Finance, Japan*, 3 June 1993, p. 3.

Table 6.3
Japanese Foreign Direct Investment by Country and Area

(Unit: Projects, US$ mil.,%)

Country/Area	FY 1990			FY 1991			FY 1992			Cumulative FY 1951 - 1992		
	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%
North America	2,426	27,192	**47.8**	1,714	18,823	**45.3**	1,258	14,572	**42.7**	27,197	169,580	43.9
U.S.A.	2,269	26,128	45.9	1,607	18,026	43.3	1,170	13,819	40.5	25,721	169,580	42.0
Canada	157	1,064	1.9	107	797	1.9	88	753	2.2	1,476	7,207	1.9
Latin & South America	339	3,628	6.4	290	3,337	8.0	307	2,726	8.0	7,794	46,547	12.0
Asia	1,499	7,054	**12.4**	1,277	5,936	**14.3**	1,269	6,425	**18.8**	21,180	59,880	15.5
Indonesia	155	1,105	1.9	148	1,193	2.9	122	1,676	4.9	2,143	14,409	3.7
Hong Kong	244	1,785	3.1	178	925	2.2	154	735	2.2	4,075	11,510	3.0
Singapore	139	840	1.5	103	613	1.5	100	670	2.0	2,762	7,837	2.0
Thailand	377	1,154	2.0	258	807	1.9	130	657	1.9	2,853	5,887	1.5
Malaysia	169	725	1.3	136	880	2.1	111	704	2.1	1,756	4,815	1.2
South Korea	54	284	0.5	48	260	0.6	28	225	0.7	1,923	4,623	1.2
China	**165**	**349**	**0.6**	**246**	**579**	**1.4**	**490**	**1,070**	**3.1**	**1,595**	**4,472**	**1.2**
Taiwan	102	446	0.8	87	405	1.0	48	292	0.9	2,535	3,427	0.9
Philippines	58	258	0.5	42	203	0.5	45	160	0.5	937	1,943	0.5
Others	36	108	0.2	31	71	0.2	41	236	0.5	601	957	0.3
Middle East	1	27	0.0	10	90	0.2	16	709	2.1	366	4,231	1.1
Europe	956	14,294	25.1	803	9,371	22.5	617	7,061	20.7	8,845	75,697	19.6
Africa	70	551	1.0	76	748	1.8	23	238	0.7	1,557	6,813	1.8
Oceania	572	4,166	7.3	394	3,278	7.9	251	2,406	7.0	4,602	23,782	6.2
Total	**5,863**	**56,911**	100	**4,564**	**41,584**	100	**3,741**	**34,138**	100	71,541	386,530	100

Source: "Japanese Foreign Direct Investment and FDI in Japan in 1992." *Ministry of Finance, Japan*, 3 June 1993, p. 2.

Table 6.4
Japanese Foreign Direct Investment by Country and Industry (Cumulative FY 1951 - 1992)

(Unit: Projects, US$ mil)

Industry		North America No.	North America Amt.	Lat. & S. Am. No.	Lat. & S. Am. Amt.	Asia No.	Asia Amt.	Middle East No.	Middle East Amt.	Europe No.	Europe Amt.	Africa No.	Africa Amt.	Oceania No.	Oceania Amt.	Total No.	Total Amt.
Manufacturing	Food	704	2587	143	268	853	1396	1	0	122	597	29	8	131	378	1983	5234
	Textile	232	1058	169	484	1553	2312	3	4	362	1130	51	41	17	14	2387	5043
	Lumber and Pulp	207	2508	54	243	526	611	-	-	30	124	3	1	121	225	941	3711
	Chemical	558	5923	144	868	1258	4282	31	1324	256	2006	13	24	25	132	2285	14558
	Iron and Non-ferrous metals	446	5027	104	2142	1147	3310	11	66	400	734	27	127	133	633	2268	12040
	Machinery	840	4723	142	483	1156	2117	7	11	373	2858	2	1	45	126	2565	10320
	Electric Appliances	**1050**	**12707**	147	764	1973	5587	10	23	369	5257	9	8	24	128	3582	24473
	Transport Equipment	440	6312	90	1479	502	2061	6	4	125	3003	6	17	32	1189	1201	14065
	Others	1082	9524	121	181	2282	3016	23	58	385	1623	8	7	74	128	3975	14537
	Subtotal	5559	50367	1114	6913	11250	24691	92	1491	2422	17331	148	234	602	2954	21187	103981
Non-manufacturing	Agriculture and Forestry	254	510	292	350	485	372	4	2	21	34	13	7	307	498	1376	1773
	Fishery	105	189	135	159	339	285	5	1	24	33	100	130	141	104	849	900
	Mining	420	2484	174	1751	313	7980	17	782	102	1811	130	582	304	3422	1460	18812
	Construction	342	1556	73	224	596	1001	56	40	51	285	26	23	50	223	1194	3353
	Commerce	**7817**	**21074**	697	2537	3430	5259	72	61	3040	9296	35	16	776	2025	15867	40268
	Finance and Insurance	584	22661	533	15735	573	5711	22	184	905	28598	28	79	103	1903	2748	74869
	Services	**3273**	**27801**	338	2688	1603	6731	22	7	928	5039	113	744	649	3600	6926	46610
	Transportation	340	769	3344	14667	384	1530	6	2	140	365	573	4127	52	191	4839	21652
	Real Estate	5104	38326	64	242	850	3608	-	-	545	9457	5	69	1348	8193	7916	59895
	Others	957	2225	870	1203	532	1639	32	87	234	1056	353	798	168	524	3146	7533
	Subtotal	19196	117595	6520	39556	9105	34115	236	1167	5990	55974	1376	6575	3898	20684	46321	275666
Overseas Branches		437	1133	61	54	663	1038	37	1570	253	2354	12	1	32	138	1495	6289
Real Estate		2005	485	99	23	162	37	1	2	180	38	21	2	70	7	2538	595
Total		27197	169580	7794	46547	21180	59880	366	4231	8845	75697	1557	6813	4602	23782	71541	186530

Source: "Japanese Foreign Direct Investment and FDI in Japan in 1992." *Ministry of Finance, Japan*, 3 June 1993, p. 3.

6.2 JAPANESE FDI PATTERN IN CHINA

Figure 6.1 and 6.2 show the trend of Japanese investment in China. The data are tabulated in table 6.5. Another set of data is tabulated in table 6.6. Table 6.5 indicates that in 1992, 1,805 projects were approved, up 201.3% and worth a contracted US$2,172 million, up 167.5%. On the other hand, figures from the Japanese Ministry of Finance in table 6.6, which show the foreign investments submitted to it for approval by Japanese firms, indicate that Japan invested in 490 projects in China in fiscal 1992 (April 1, 1992 to March 31, 1993), up 99.2% from the previous fiscal year, worth US$1,070 million (up 84.8%). We can find that there are some discrepancies both in the number of projects and the amount invested. The primary source of table 6.5 is *Guoji Shangbao* [International Commerce] while that of table 6.6 is Japanese Ministry of Finance. The major reasons for such discrepancies may be that China and Japan count the numbers with different bases and counting methods. For instance, there might be some Japanese companies outside Japan which had not submitted their figures to the Japanese Ministry of Finance. So the Japanese figures are smaller than the Chinese ones. Also the time bases are different. Japan counts from April to March while China counts from January to December. The different exchange rates among Rmb, FEC, US$ and Yen might also account for such differences because of the depreciation of Rmb together with the appreciation of Yen. Nevertheless, the general trends consistently show that the Japanese investment pace in China is accelerating even though Japanese global investment is contracting.

Figure 6.1

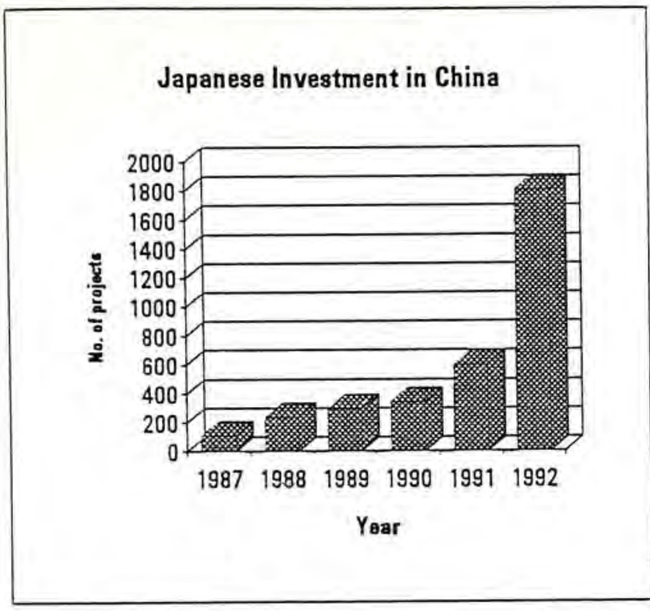


Figure 6.2

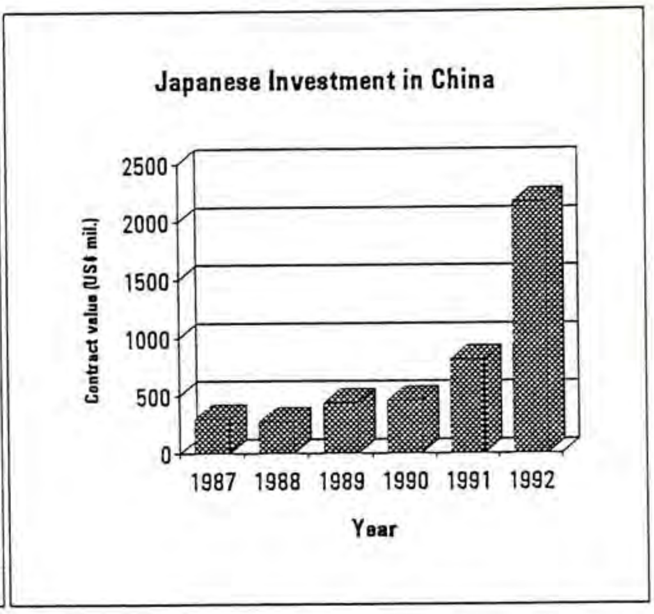


Table 6.5

Trends in Investment by Japanese Companies in China

(Unit: Projects, US$ mil.)

Year	No. of projects	% increase over the previous year	Contract value	% increase over the previous year
1987	113	20.2	301	43.3
1988	237	109.7	276	-8.3
1989	294	24.1	439	59.1
1990	341	16.0	457	4.1
1991	599	75.7	812	77.7
1992	**1,805**	201.3	**2,172**	167.5
Cumulative at end of 1992	3,694		5,973	

Source: "Recent Trends in investment and operations of foreign affiliates," *JETRO China Newsletter*, May-June 1993, p. 5.
"Foreign Investment in China by Country and Region, 1992," *ibid.*, July - August 1993, pp. 19-20.

Table 6.6

Japanese FDI - China versus Global

(Unit: Cases, US$ mil.)

	China						Global			
Year	No.	% Δ	% of global	Amt.	% Δ	% of global	No.	% Δ	Amt.	% Δ
FY 1988	171	-	2.8	296	-	0.63	6077	-	47022	-
FY 1989	126	-26.3	1.9	438	48.0	0.65	6589	8.4	67540	43.6
FY 1990	165	31.0	2.8	349	-20.3	0.61	5863	-11.0	56911	-15.7
FY 1991	246	49.1	5.4	579	65.9	1.39	4564	-22.2	41584	-26.9
FY 1992	**490**	99.2	13.1	**1070**	84.8	3.13	3741	-18.0	34138	-17.9
Cumulative FY 1951 - 1992	1595		2.2	4472		1.16	71541		386530	

Source: "Japanese Foreign Direct Investment and FDI in Japan in 1992," *Ministry of Finance, Japan*, 3 June 1993, p. 2. W.C. Ernest Lee; and M.K. Waynie So, *Japanese Investment in Hong Kong Towards 1997 - Its Implications and Future Direction*, April 1992, p. 30.

Table 6.7 summarizes the Japanese direct investment in China by provinces. Geographically, Japanese companies tended to invest in Dalian in Liaoning province, Shanghai, Guangdong, Jiangsu, Beijing, Qingdao in Shandong province, and other coastal cities north of the Changjiang river. More up-to-date information shows that by the end of September 1992, the cumulative share of Japanese investment in overall investment in China was only 4.5% in terms of the number of projects and 6.5% in terms of value. In Shanghai, however, Japanese companies account for 14% of the projects and 16% of the value, while in Beijing they account for 14% of the projects and 19% of the value, and in Dalian 30% of the projects and 46% of the value.[26]

[26]"Recent Trends in investment and operations of foreign affiliates," *JETRO China Newsletter*, May-June 1993, p. 5.

Table 6.7

Agreement of Japanese Direct Investment in China by Provinces

Amount in US$10,000

Region	1987		1988		1989		1990		1991	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Liaoning	11	3820	52	6287	64	14823	68	2818	132	24615
Shanghai	12	460	23	2210	29	2771	33	2393	49	13169
Guangdong	19	3783	23	4257	23	2398	15	3100	33	12451
Jiangsu	5	430	15	1352	23	2663	39	1091	81	9214
Shandong	6	365	22	2212	25	1257	31	2551	49	4156
Beijing	13	11240	16	1023	38	2606	29	892	60	1879
Zhejiang	3	338	10	947	7	201	18	450	28	1670
Fujian	10	713	13	1071	10	1303	24	1977	19	957
Hainan			15	7696	19	1639	12	649	12	716
Tianjin	11	214	14	1858	14	2512	12	1628	33	660
Hebei	1	13	4	294	7	1379	6	158	12	452
Jilin	3	123	3	106	8	157	9	407	18	315
Heilongjiang	3	30	5	161	8	285	6	93	17	305
Henan	1	23	1	48			4	304	7	299
Guangxi	1	37	1	294			1	2000	3	239
Sichuan	1	70	1	16	4	204	5	97	5	157
Shaanxi	1	23	1	16	2	103	5	97	5	151
Anhui			4	39	2	56	6	345	5	139
Hunan	2	42			1	25	1	104	5	101
Hubei	1	15			2	36	4	53	4	81
Jiangxi					1	13	4	51	3	54
Gansu					2	1022			1	27
Guizhou			1	13					2	12
Yunnan					5	97			1	12
Shanxi							1	16	2	9
Xinjiang	1	243					1	250		
Inner Mongolia	1	7	1	46			1	5		
Tibet										
Qinghai										
Ningxia										

Source: *China Foreign Economic Statistics* (Beijing: China Statistical Information & Consultancy Service Centre, 1992), pp. 404-405.

Japan has less exposure in the south, where Hongkong and Taiwan businessmen are more active. In the Pearl River delta, Japanese businessmen prefer to sign low-risk production contracts rather than put in long-term capital. The Citizen Watch group, for example, has been placing annual orders, via its Hongkong subsidiary, Walop

Ltd, for up to 500,000 parts with a Chinese factory in Guangdong province since 1988.

The industries which the Japanese companies involve in China are mainly labour-intensive types such as textiles, garment, electrical machinery and food, and of the type which requires locating near sources of raw materials, such as ceramics and building materials. Big Japanese firms are continuously moving into China. For example, Sharp set up an air-conditioner joint venture in Shanghai, while electronics giant NEC built a ¥8 billion plant in the northeastern city of Tianjin to make telephone switchboards. NEC also set up a ¥26 billion factory in Beijing to produce large-scale integrated circuits. Hitachi Ltd. started a joint venture in Shenzhen to build TV tubes, which were then exported. Matsushita Electric Industrial Co.'s Beijing venture sells picture tubes to Chinese TV makers, who export most of their sets. Isuzu Motors Ltd in Shenyang is hiking the number of trucks it makes in China.[27]

Below we try to look in more detail about Japanese investment in China by taking two Japanese companies as examples. One is Canon in Dalian for the manufacturing industry and the other is Yaohan in Beijing and Shanghai for the retailing industry.

---

[27]Isuzu supplies diesel engines and trucks that are badged as GM models. In January 1992, General Motors and Shenyang Jinbei Automobile Shareholding Co. formed a US$100 million joint venture to make pickup trucks in China. GM takes a 30% equity share. For details, please refer to Carl Goldstein, "Catch as Catch can: US Car Giant Redoubles push into Asia," *Far Eastern Economic Review*, March 19, 1991, pp. 42-43.

6.3 CANON IN DALIAN

Canon's main business is computer and office equipment. Before 1992, Canon already has had two Chinese ventures in Beijing and Zhuhai. In February 1992, a new US$150-million Canon typewriter and laser printer cartridge factory was opened. It is the largest wholly-owned Japanese investment in China. Under the terms of the contract Canon must export all its production for the first years of operation. After that it will be allowed to sell 20% into the domestic market.

Dalian is the most favoured destination for Japanese firms. From 1984-90, Japanese companies established 159 joint-venture, cooperative production or wholly owned companies in Dalian with a total value of more than US$550 million. This investment accounted for more than 35% of foreign investment in Dalian in the period.[28] In 1992, out of 700 Japanese firms active in China, 200 had operations in the area of the Liaoning province port city.[29]

Dalian, in northeast China, has a reputation as a tough city. With its large port, heavy industrial base and history of occupation - by the Russians and the Japanese - its people have had their character-forming experiences. Maybe that's why other Chinese say about Dalian folk: 'They never quarrel. They just fight.' Table 6.8

---

[28]Robert Delfs and Louise do Rosario, "Sense or Sensibility: Historical Mistrust Hampers Marriage of Capital and Cheap Labour," *Far Eastern Economic Review*, April 25, 1991, p. 54.

[29]Louise do Rosario, "Tailored to Fit: Japan and China Find They Complement Each Other," *Far Eastern Economic Review*, October 22, 1992, p. 53.

gives some information about Dalian.

Table 6.8

Dalian at a glance

Population:	2.4 million in 1992
Distance from Beijing:	457 km
Major industries:	Ship building, petrochemicals, textiles, electronics, tourism, fisheries.
Infrastructure:	One of China's leading ports, Dalian Economic and Technical Development Zone, international airport, Shenyang-Dalian expressway.
Major foreign investors:	Canon, Total, Holiday Inn, Onoda Cement Co, Mabuchi Motor.
Major investing countries:	Japan, Hongkong-Macau, the U.S., Taiwan, South Korea.
Foreign banks:	Hongkong Bank, Tokyo Bank.
Educational institutions:	Dalian University of Technology, Dalian Marine College.

Source: Brian Caplen, "No quarrels: Just fights," *Asian Business*, January 1993, p. 46.

Between 1984, when Dalian was opened to foreign investment, and mid-1992, foreign companies invested US$1.44 billion in the city, most of it in the development zone just to the north. That was about half the total for Liaoning province. By the end of 1992, there have been 624 FFEs in Dalian. 219 FFEs started their operations in 1992.[30] The investment that is now arriving is of an increasingly hi-tech nature. Besides Canon, Mabuchi Motor has made sizeable profits from its factory turning out small electric motors in Dalian.

There are two factors accounted for Canon choosing Dalian as its investment site.

---

[30]*Almanac of China's Foreign Economic Relations and Trade* (Beijing: China Social Publishing House, 1993), p. 259.

First is transportation. In 1992, Dalian port had 55 shipping terminals. Goods shipped weighed 5.9 million tons. In fact Japan accounted for 58.44% (US$724 million) of Dalian's export and 61.16% of Dalian's import (US$403 million) in 1992.[31] "One reason Dalian was chosen is the convenience of the transportation," said Canon Dalian Business Machines' general manager Sun Yu Min, "We ship out more than 10 containers a day and transfer to Dalian port takes less than an hour. When Dayao Bay (a new, nearby port area) is completed it will take only 20 minutes."

Another factor is labour. The wages for Chinese labour are low in general. Canon is delighted with its 1,300 Dalian workers, 70% of whom are women. "Our Japanese managers have said many times that the women workers here are clever, skilled, honest - and better than some Japanese workers," said Sun.

6.4 Yaohan in Beijing and Shanghai

Both Beijing and Shanghai are China's major cities under the direct administration of the State Council. Beijing is the Chinese capital with a population about 10 million. It is an ancient cultural city with a host of historical relics. Major industries in Beijing are chemical, electronics, arts and crafts, metallurgical, machinery, textiles and food. Shanghai is China's largest economic centre on the East China Sea, it evenly divides China's long coastline, in-between the Hangzhou Gulf to its south and

[31] *Almanac of China's Foreign Economic Relations and Trade* (Beijing: China Social Publishing House, 1993), p. 259.

the estuary of the Yangtze River to its north. Pudong is Shanghai's new development district. Shanghai has increased its economic contacts with foreign countries and launched many joint ventures. Examples are Shanghai Volkswagen Automotive Company with Germany, the Shanghai Squibb Pharmaceuticals and the Shanghai Foxboro Company with the United States, and the Shanghai Broadway Wooltex Ltd with Hongkong. Table 6.9 illustrates some information about Shanghai.

Table 6.9

Shanghai at a glance

Population:	About 13 million in 1991
Major industries:	Metallurgy, chemicals, machine building, ship building, electronics, metres and instruments, textiles, light industry, handicrafts, and pharmaceuticals.
Infrastructure:	Power plants, coal gas factories, airports, harbour areas, railway hub between the north and south, ports.
Major foreign investors:	Volkswagen Automotive, Squibb Pharmaceuticals, Foxboro, China-Schindler Elevator, Broadway Wooltex, Yaohan.
Major investing countries:	Japan, Hongkong-Macau, the U.S., Germany, Taiwan.
Foreign banks:	Hongkong Bank, Standard Chartered Bank, Overseas-Chinese Bank.
Educational institutions:	Shanghai Jiaotong University, Fudan University, the East China Teachers University,

Source: *Guide to Economic & Technical Cooperation and Investment in China* (Beijing: China Economy Publishing House, 1988), pp. 199-203.

Yaohan International Holdings is a holding company for Yaohan's three listed subsidiaries in Hong Kong, namely, Yaohan Food Processing & Trading Co., Yaohan Hong Kong Corp. and Yaohan International Caterers Ltd. Yaohan International is the group's main vehicle for investing in China. In April 1989, Yaohan moved its headquarters from Japan to Hong Kong. In June 1992, Yaohan reached joint venture agreement with different parties in Shanghai and Beijing to operate local department stores. The store in Beijing utilized an existing building structure and opened in December 1992 whereas the one in Shanghai is constructed from ground. The Shanghai project is a US$100 million joint-venture deal with Shanghai Number One Department Store to establish a 100,000-square-meter store in Pudong, where Yaohan takes 55% share and Shanghai Number One holds the balance. Yaohan is the first foreign retailer to become directly involved in large-scale retailing on the mainland. Upon completion in late 1995, the centre will be the biggest shopping mall in both China and Asia. Yaohan is also establishing a wholesale distribution complex in Beijing which would be completed by late 1995. The next step is to establish a department store in Guangzhou with Guangdong Investment. It is expected Yaohan would set up no less than 1,000 stores in China by 2010 and its sales to top US$7.5 billion by 2020. Many of these stores would be run under franchise agreements with local partners. The chairman Kazuo Wada estimated that Yaohan's capital investment in China will total about US$200 million by the end of 1995.[32] However, Yaohan in Beijing currently has faced quite a number of problems.[33] Few customers, currency problem, lack of managerial expertise and severe competition made Yaohan wonder whether its contemplated project in Pudong, Shanghai, is too ambitious in the current environment. Its Beijing partner does not have the capital to underwrite the scheme. If Yaohan wants to raise substantial funds it must either look for another partner locally or turn to Tokyo and risk losing even more money if the renminbi drops further. Nevertheless, such problems are generally encountered by many

---

[32]Peter Stein, "Yaohan Expects Healthy Results on China Sales," *The Asian Wall Street Journal*, March 1, 1994, p. 4.

[33]Henny Sender, "No bed of roses: Yaohan discovers the business perils of China," *Far Eastern Economic Review*, August 5, 1993, p. 64.

foreign companies during the initial set-up stage. We expect the problems would be resolved when the retail industry in China becomes more mature.

Besides the department store business, in October 1992, Yaohan International together with a Chinese company CVIC (China Venturetech Investment Co.) set up a holding company in the Mainland China. In 1993, the holding company joined the Japanese Mos Food Services Inc and planned to develop 3,000 franchised fast food restaurants in China by 2010. The first restaurant would be opened in Shanghai in May 1994.[34] The joint venture is named Yaohan Mos Food Services International Company (Y.M.C. International). The total initial capital investment is HK$10 million. Yaohan and Mos Food each holds 35% of the shares while CVIC holds 30%.

China's State Statistical Bureau reported that retail sales jumped to Rmb 265.9 billion in the first quarter of 1992 and the boom is expected to grow. Therefore, Japanese firms are currently targeting major Chinese cities whose residents' purchasing power has been rising fastest. That is the major reason why Yaohan chose Beijing and Shanghai for its retail business development.

6.5 Trend of Japanese FDI in China

A look at the trends in investments of Japanese companies revealed a broadening of the fields of investment. In the manufacturing sector, in addition to previously

34 "八佰伴擬購商場以增加土地儲備，"明報，["Yaohan plans to buy shopping centres to increase its land reserves," *Ming Pao*,] March 1, 1994, p. B2.

prominent labour-intensive industries, investments have also been getting into fields such as automobiles, communications equipment, and ferrous metals. This is due in part to the alignment with the China's industrial policy of the eighth five year plan (1991-95) and in part to the improvement in income levels in China's cities which results in the Chinese huge consumer market. As China's economic reform and open door policy become more firmly entrenched, large-scale investment from Japan in the energy and material industries has also been growing. In November, 1992, the press reported the start of a feasibility study on the joint construction of a petrochemical complex, involving investment of as much as 500 billion yen, in Yingkou, Liaoning Province, by six major trading companies. Thus, Japanese companies are moving beyond the old incentives such as China's inexpensive labour force.[35]

In the non-manufacturing sector, investment has been picking up in tertiary industries such as retailing, wholesaling and warehousing, finance and real estate, trucking and shipping, law offices and tourism development. In the retail field, following the path of Yaohan, three companies, namely, Sogo, Seibu and Daiei of Japan have decided to set up stores in Puxi (the administrative and commercial centre of the old Shanghai), Shenzhen and Beijing respectively. China's first foreign-owned trading companies were established in Pudong by Itochu (the former C. Itoh), Sumitomo Corporation, Mitsui & Co., and Marubeni. The joint venture Dalian Industrial Park Investment Corporation (DIPIC) has also been formally established to take charge of the development and operation of the Dalian Japanese Industrial Estate, a large-scale

[35] "Foreign Investment in the PRC, 1991-92," *JETRO China Newsletter*, Jan.-Feb. 1993, p. 21.

joint Sino-Japanese project.[36]

[36] "Foreign Investment in the PRC, 1991-92," *JETRO China Newsletter*, Jan.-Feb. 1993, p. 21.

CHAPTER VII

JAPANESE INVESTMENT APPROACH IN THE PRC

7.1 JAPANESE APPROACH

In the first half of the 1980s, Japanese Multinational Corporations (MNCs) hesitated to commit to major investment in China, preferring to sell to the Chinese market. As a result, Japan quickly became China's major trading partner. Japanese executives have long referred to joint ventures in China as "joint adventures." This sobriquet reveals an old uneasiness about Chinese investments. Most Japanese firms are cautious about the China market mainly because of the different economic system in China. They prefer to trade because the risks are less.

In 1987, the Ministry of International Trade and Industry (MITI) led a group of 70 Japanese businessmen on an investment mission to China. In December 1988, the Sino-Japanese bilateral investment treaty (BIT) was completed. It is a legitimate vehicle for promoting and protecting foreign investment in China.[37] In September

[37]The Sino-Japanese BIT contains 5 board subject areas: 1. scope of coverage, 2. type of treatment, 3. standard of compensation in the event of expropriation or nationalization, 4. transfers of foreign exchange, and 5. settlement of disputes. For details, please refer to - Laurence W. Bates, "Protecting Foreign Investments in China: The Sino-Japanese Bilateral Investment Treaty," *East Asian Executive Reports*,

1992, Chinese trade officials complained about the low level of investment when members of Japan's big-business organisation *Keidanren* visited China. Strong pressure from the Chinese government and the rise in the value of the yen have led to a steady stream of Japanese FDI projects in China. Beijing's austerity program, designed to replace imports with Chinese-made goods, is also forcing the Japanese to shift from trade to investments. With the production costs rising in such countries as South Korea and Thailand, the Japanese firms are turning to China, Indonesia and Vietnam, seeking to shift their production facilities to cheaper bases. In recent years, Japanese investments in China have risen, against the general three-year decline in their investments worldwide.

7.2 OTHER INVESTORS' APPROACHES

In order to compared with the Japanese investment approach in China, here we also look at three Asian investors' approaches - Hong Kong, Taiwan and South Korea.

In 1992, Hong Kong provided about 69% of total FDI in China. The investment were concentrated on textile and electronics types which required cheap and ample labour supplies. The geographical proximity and the 1997 issue make Hong Kong special for China. Thus many Hong Kong people like to invest in China, particularly in Guangdong. As prices rise, Hong Kong investors are now moving North and inland. For example, Pacific Concord Holdings has launched a US$300-million joint venture in Shanghai to build an 88-story office tower. Meanwhile, Wharf (Holdings)

December 15, 1988, pp. 9-14.

Ltd put more than US$1 billion into Wuhan.[38] Many foreign companies also treat Hong Kong as a gateway to access the China businesses. The key factor in determining whether these FDI flows continue will be the way China implements its 'one-country, two systems' strategy after 1997 and how this affects business confidence.

In 1992, Taiwan held second place as a source of FDI flows to China. The investments were also concentrated in the labour-intensive electronics, plastic products and machinery sectors. A wide range of economic, political and cultural imperatives has made FDI from Taiwan most attractive to China. Chinese officials and industrialists feel very comfortable dealing with Taiwanese business people. Although the Chinese and Taiwanese have lived under different economic systems during the last 40 years, they come from the same society, share a common culture, values and language, and have strong family sense. Moreover, China seems to be more than willing to begin to bridge its political and ideological schism with Taiwan through improved economic relations. Taiwanese business people, like their Hong Kong counterparts, are more likely than other foreign investors to respond to Chinese efforts to attract FDI in natural resources, infrastructure and real estate development.

Most South Korean investment in China is also in labour-intensive areas - electronics, toys, processed foods, apparel and household items. China offers a vast and diversified market in Asia and access to natural resources. Moreover, for geopolitical

---

[38]Pete Engardio, "Mainland Mania in Hong Kong," *Business Week*, August 17, 1993, p. 48.

reasons, the South Korean government is very supportive of domestic businesses expanding their economic relations with China. Korean investors are also moving inland. Today the top three Korea's *chaebols* are Samsung, Hyundai and Daewoo, while Samsung has opened branch offices in Qingdao and Chongqing.[39]

All the direct investors have a common base, that is, they want to utilize the cheap Chinese labour. Among the investing countries, Japanese investment seems to provide a relative high-level technology such as that in electrical appliance and automobile industries. South Korea seems to provide a medium-level technology, while Hong Kong and Taiwan provide low-level technology. Hong Kong and Taiwan's management approaches are more suited to China because of the same cultural background and language. Japan is the most aggressive investor aiming at the huge Chinese market.

7.3 Investment Incentives for Japanese Investors

Why Japan wants to invest in China? What are the motivators? Previously, Japanese companies grew quickly because of the huge U.S. market. However, there has been a trade war between Japan and the United States recently. Japan's economy is also under a recession and the Yen is too strong. On the other hand, China can provide cheap labour, lower R & D investment and huge market. Investing in China can increase the efficiency and sustain the Japan's economic growth to a certain extent.

[39] "Samsung Co.: Focusing on China's Northeast," *Business Korea*, July 1993, p. 62.

Also it is consistent with the Japanese never-ending expansion strategy.

Japanese firms' move to South Asia is backed to the hilt by the government, which provides a special fund to help them put together joint ventures with local businesses, insures them against commercial risks, and manages a huge foreign aid programme usually tied to purchases of Japanese equipment.[40] The Ministry of International Trade (MITI), Japan Development Bank and the Japan External Trade Organization (JETRO) do great jobs in this aspect.

In particular JETRO is mentioned. It is a nonprofit government-related organization established in 1958. Its mission is to maintain harmonious trade relationships between Japan and other countries. To support Japanese companies interested in overseas expansion, JETRO cooperates with associations representing such companies by providing information on trade, investment, and technology transfer. Consulting services and introductions to possible trading partners are also provided. Furthermore, to encourage internationalization, JETRO would provide support for small and medium-sized Japanese companies to take part in overseas trade fairs.[41]

---

[40]K. John Fukuda, *Japanese Management in East Asia and Beyond* (Hong Kong: The Chinese University Press, 1993), p. 13.

[41]*JETRO - Japan External Trade Organization* (Japan: n.p., 1993), pp. 1, 9.

CHAPTER VIII

PROBLEMS FACED BY JAPANESE INVESTORS IN THE PRC

8.1 General Problems

In general, foreign investment in China has been hindered by: (1) an absence of consistent and steady foreign investment and related economic policies; (2) the frictions, if not incompatibility, between China's socialist, centrally planned economic system and the market-orientation of FDI; (3) the Chinese bureaucracy; (4) the strong competition from East and Southeast Asian countries for export-oriented FDI projects; and (5) the overheated economy.

According to a questionnaire survey conducted by the Japan-China Investment Promotion Organization, there are several problems faced by the Japanese companies in their China operations (see table 8.1). For manufacturing, procuring materials is the most serious problem while for service, infrastructure is most serious. These problems are consistently related to the overheated economy in China. Therefore, we can say that the overheated economy is the main current issue faced by not only the Japanese companies but also general investors in China. Rising expenses and prices are related to the overheated economy also. The labour problems might be related to the Chinese bureaucracy. Lack of laws and institutions are related to the socialist market economy. Tax system is related to the economic policies. One problem which might be regarded unique for Japanese investors is quality control. Japanese products have long been famous for their high quality while Chinese products are famous for low prices at the expense of poor quality. Such a big gap in the concept of quality has caused a lot of unresolved issues between the Japanese and the Chinese parties.

Table 8.1

Problems Faced by Japanese Companies in their China operations

Item	Manufacturing		Service	
	No. of firms	%	No. of firms	%
Procuring materials in China	48	72.7	7	36.8
Rising expenses and prices	23	34.8	4	21.1
Delivery and transport in import and export	21	31.8	0	
Production and quality control	21	31.8	2	10.5
Labour management and personnel	20	30.3	6	31.6
Wages, welfare, and benefits	18	27.3	8	42.1
Employment	16	24.2	8	42.1
Lack of laws and institutions	15	22.7	5	26.3
Infrastructure	12	18.2	9	47.4
Relations with Chinese partners	12	18.2	5	26.3
Tax system	11	16.7	10	52.6
Dealing with government	11	16.7	1	5.3
Export-related problems	9	13.6	0	15.8
Fund raising	8	12.1	3	5.3
Poor sales	7	10.6	1	
No response	5	7.6	1	5.3
Others	4	6.1	8	42.1
Nothing in particular	1	1.5	0	
No. of companies responding	66		19	

Source: "Recent Trends in investment and operations of foreign affiliates," *JETRO China Newsletter*, May-June 1993, p. 6.

Related to table 8.1, we can summarize the problems in seven aspects:

First, in the manufacturing industries, problems with securing materials in China were mentioned most often. Also they found it difficult to obtain steel, cement, and other materials for building factories. Chinese companies were unwilling to fill their orders partly because Japanese affiliates make tough demands in terms of delivery and quality.

Second, soaring costs and prices were mentioned, in particular the personnel costs. Most companies indicated that the recent average annual increase in wages was 15 to 20%. There is a shortage of middle management, engineers, accountants, interpreters, and other specialists, resulting in the appearance of head-hunting between FFEs and state-run enterprises. Meanwhile, the land usage and factory construction costs have continued to soar as compared with those prevailing when they conducted their feasibility studies.

Third, problems were found in both product and process quality control. Also mentioned were inadequate physical distribution infrastructure, such as the limited capacity of the ports to handle imports and exports of products and materials and customs clearance procedures.

Fourth, many companies indicated there were problems in the areas of labour and personnel management and in relations with Chinese partners. With the local governments being given greater authority, there are some grey areas in central laws and local regulations. For example, local governments might start to charge FFEs for infrastructure development, power station construction and even greenification through establishing their own regulations. Furthermore, disputes between partners has also been rising. There have been scattered incidents involving the Chinese partner making use of what the Japanese considered private property or diverting materials and funds for its own use. This kind of trouble is due in part to differences in thinking of Chinese and Japanese, but nonetheless creates an atmosphere of mutual distrust and gradually escalating friction. In other cases, when a need for further operating funds arises, despite contracts calling for the parties to raise additional funds according to their equity shares, the Chinese partners prove unable to raise funds.

Fifth, the localities cannot construct the power, heating and water, transportation, and communications infrastructure fast enough to keep up with demand. Over 70% of the responding manufacturing companies indicated that they had problems with arrangement for trucks. For service industries, these shortages have an even broader effect.

Sixth, many service companies indicated they were having problems with the tax system. The reason is that fewer tax incentives are provided to the service industries than the manufacturing industries. The main complaint is over the inequality between the unified industrial and commercial tax assessed on the domestic sales of the FFEs and the value-added tax assessed on domestic companies.

Seventh, the export ratio could be changed easily simply due to the pressure from domestic enterprises in the same field. Export prices are also raised by the government in some cases. Companies often have difficulty obtaining export permits.

Recently, trouble has also arisen over the dissolution of joint ventures. The liquidation proceedings fail to progress due to conditions imposed by the government authorities or lack of cooperation from the Chinese partners.

All these troubles are due mainly to the immature legal system in China, the lack of central government guidance and supervision over the local authorities, and the inexperience of the Chinese partners. The Japan-China Investment Promotion Organization tries to resolve problems together with its Chinese counterpart, the China-Japan Investment Commission. Although there are so many problems, FFEs continue to invest in China simply because of profits.

8.2 New Tax System in China

China used to give special tax allowances for foreign-funded enterprises (FFEs) in order to attract foreign investment. All FFEs paid 33% tax on profits while state enterprises paid 55%. Within the 33% tax, 30% was gone to central government and 3% to local government. Exceptions were found in the five Special Economic Zones [SEZs] and the 14 coastal economic and technological development zones, where corporate tax was 15%.

In order to boost the revenue of the central government and bring the tax burden of China's state enterprises into line with foreign firms, on January 1, 1994, China began to carry out wide-ranging structural reforms on the industrial and commercial taxes. A summary of the new taxes is shown in appendix 4.

The new system abolishes the old Consolidated Industrial and Commercial Tax on sales. In its place is a European-style value-added tax on production, mostly at a rate of 17%. Companies are also to be charged a uniform 33% corporate tax, reducing the burden on state enterprises, which had previously been taxed at 55% of profits. The number of industrial and commercial taxes has also been reduced from 32 to 18, more in order to simplify collection than to help companies. A capital-gains tax will be charged on sales of property and stocks, and a new graduated personal income tax will apply to Chinese and foreigners alike. Service businesses, such as finance, construction and transportation firms, also will be charged an income tax on a sliding scale ranging from 3% to as high as 20% for bars, nightclubs and luxury hotels. A stiff new consumption tax will increase charges for tobacco, alcohol and automobiles.[42]

As a result, all FFEs approved after January 1, 1994 shall pay their taxes according to the newly established tax rules. They are also subjected to pay the value-added taxes, consumption taxes and business taxes.[43] For those approved before December 31, 1993, the taxes will be refunded upon their application and the tax office's

---

[42]Laurence Zuckerman, "China's New Taxes Puzzle Foreigners," *The Asian Wall Street Journal*, January 3, 1994, p. 4.

[43]"Tax Reforms Entail No Added Burdens to FFEs - Official Policy," *China Economic News*, January 31, 1994, p. 3.

approval, for a period of no more than five years.[44] Local incentives, such as the 15% tax rate on FFEs in SEZs, will remain. After all, foreign businesses will end up paying more taxes, especially in light of a 33% devaluation of the Chinese currency, which also went into effect January 1, 1994. As a whole, the new tax system has negative impact on FDI in China.

8.3 Technology Transfer

Technology transfer (TT) can be defined as the geographical movement of means or methods so as to improve the goods or services provided. FDI is regarded as one of the major channels for TT. The first TT from Japan after the People's Republic was established was in 1963 when Kurashiki Rayon exported a vinylon plant and provided guidance in the construction of the facilities and in the operation of the plant. TT continued and in 1991, for instance, Hitachi announced plans to supply VCR technology to three Chinese-owned plants. Japan is famous for technology fusion. China has a large domestic market which creates a demand-driven environment. These should make Technology Transfer be beneficial to both Japan and China theoretically. However, the transfers of Japanese technology were not proceeding all that smoothly. Below summarizes the confusion over TT between Japan and China.[45]

---

[44]"Decision on the Use of Interim Regulations Concerning Value-added Taxes, Consumption Taxes and Business Taxes on FFEs and Foreign Enterprises," *China Economic News*, January 31, 1994, p. 7.

[45]Masumi Watanabe, "Some Thoughts on Technology Transfer," *JETRO China Newsletter*, Mar.-Apr. 1993, pp. 8-9.

First, from the Japanese side, it claims:

(1) The Chinese have little conception of intellectual property rights and they tend to access the value of technology lightly;

(2) The Chinese are not willing to introduce technology in a realistic manner in stages and irritate the Japanese with their demands for the latest technology at the very outset;

(3) The Chinese demand the Japanese side guarantee the manufacturing quality, based on the idea of Japanese responsibility for technical development;

(4) The Chinese have no perception of the obligation of confidentiality in TT and make copies to other sectors frequently.

From the Chinese side, it claims:

(1) The Japanese are unwilling to disclose their latest technology;

(2) The Japanese believe that the Japanese way is the best and unilaterally push Japanese methods on the Chinese side;

(3) The Japanese delay and take too long to resolve problems;

(4) The Japanese ask for written guarantees on all manner. They are overly rigid and needlessly prolong negotiations;

(5) The Japanese charge too much for TT and for training.

The problem of TT does have negative feedback impact on FDI. However, this is not non-negotiable. Understanding the bottom-lines of both parties can help in resolving the issue. After all, for Japanese companies, starting up projects in China and transferring the technology suited for those projects there would start new exchanges and in the end lead to strong commercial rights in China. Chinese should aim at the most suitable technology for its development instead of the most advanced one.

The biggest problem in improving the level of technology in China is the shortage of suitable manpower. The 10-year gap in education wrought by the Cultural Revolution has cast a shadow over China's economic development. The authorities have recently been working to improve technical education, but it will be some time before the country can successfully digest and absorb the sophisticated technology which it imports.

8.4 CORRUPTION

Corruption in China is always a problem faced by foreign investors. Some Chinese use a more implicit word *Fangbian* (convenience or special allowance). Foreign executives working in China are always approached by slick operators (many of them are actually local and central government officials) offering to make deals, get approvals, or nail down allocations on condition that a hefty amount of foreign currency is paid into their foreign bank accounts. Part of the reason for spiralling corruption is the new round of corporate frenzy to get into China and start production as soon as possible.

In the negative viewpoint, there is growing opportunity for corruption. Under the communist economy, the problem would not be so prominent because there is no private property. However, under the liberalized market economy, corruption grows drastically. This phenomenon occurs because modern China has no deep tradition of law, not to mention business ethics and economic principles, so many people operate in the belief that there is no crime if nobody is caught. Money is the new religion. *Guanxi* (connections) continue to be an important bureaucratic fact of life in China. You have to know the multiple lines of communication and the levers of influence. Corruption can be used as a mean to build up *Guanxi*.

In order to curb the problem, the Chinese government has launched many province-wide anti-corruption campaigns. Recently, more than 300,000 officials in Anhui[46] have been caught siphoning off or misusing public funds. They used public money to offer high-interest loans, build private houses, buy high-class furniture, gamble and visit prostitutes. Bribes, embezzlement and kick-backs are a way of their lives.[47] Nevertheless, it seems that the corruption problem is so extensive that it cannot be solved in the near future.

---

[46]Anhui is one of China's poorest provinces and one where the gap between coastal urban wealth and rural inland poverty has been growing.

[47]"Charges Against 300,000 Officials reveal deep corruption in China," *The Asian Wall Street Journal*, January 5, 1994, p. 3.

CHAPTER IX

PROJECTION OF JAPANESE FDI IN THE PRC

9.1 THE OUTLOOK OF FDI IN CHINA

Three key factors are likely to shape China's FDI environment:[48] (1) first is political stability, in particular China is poised at the end of a leadership cycle; (2) second is economic policies. Will the economic and business environment improve enough to attract FDI? Now several factors might work against the China's economic reforms. Examples are the leadership's unwillingness to lose power and privileges that may result from reform; the Chinese authorities' fear that China would experience political and economic upheavals similar to those seen 1989 in Eastern Europe and the Soviet Union; (3) third is the relationship between China and its competitive Asia Pacific neighbours. Traditionally, China has developed a preference for minimizing interaction with the outside world. Only in the last decade or so has China renewed efforts to expand its international economic relations. The pace at which China is able and willing to continue this open-door policy will help shape its economic role in the future.

---

[48]Joseph Battat, "Foreign Investment in China in the 90s: Developing Trends," *East Asian Executive Reports*, August 15, 1991, p. 16.

If the Chinese elite are able to follow a stable political and economic course in the next five years, the second half of the 1990s may hold a more positive scenario and the boom in investment in China is expected to continue. However, the objectives have been changing. In the past, the emphasis was on the establishment of export processing-type production centres, while the weight is now shifting to investments with a domestic market orientation. There will also be an increase in investments aimed at the supply of materials and parts for the FFEs and at performing sub-contract processing for them. There have also been investments involving the simultaneous construction of production plants and the establishment of sales networks so as to secure domestic sales channels for the finished products.

Development of tertiary industry is important for the improvement of the people's standard of living. Based on this viewpoint, we can expect much in the way of increased opportunities for investment in the service sector, that is, in commerce, physical distribution, and leisure, as the levels of income of the people rise and domestic demand increases.

Nonetheless, the fast expanded scale of investment to fixed assets also incurs a tough problem looming over China's economic planners. In 1993, the over investment of fixed assets led to an exacerbation of the inflation in China. So the curbing of a too fast growth of capital construction will be a top priority task of macro-control in the mid and late 1990's. At end-1993, the Chinese government instituted a two-level control on investments to fixed assets. One is a general screening to all the projects that have already been under construction to rearrange their priorities with the less important ones to be delayed or suspended. The other is imposing a strict control on the ones to be started. Those projects which are short of funds will be prohibited from starting construction.[49] Now, any proposed joint venture projects between State-owned enterprises and foreign firms should be subject to assets evaluation by authorized agencies and confirmed by State property administrative offices.

Concerning the China's policy towards FDI, China will continue to welcome foreign investors, although the central government will be more discriminating in approving projects. It will increasingly be interested in the quality of investment. Some cities are likely to become similarly choosy: in particular, Shanghai, Guangzhou and even Shenzhen, which already seems to be favouring high-technology projects and service, will want to cast off their low-end assembly-plant image. Retailing will attract not only the large department store chains from Hong Kong and Japan; existing joint ventures manufacturing consumer goods in China are also likely to be attracted by the opportunity to open retail outlets there. Trading, distribution and insurance opportunities will similarly widen.[50] Regarding the operating conditions, investors will encounter tough competition for virtually everything (raw materials, semi-manufactures, transport, managers and workers) partly due to the improvement of state enterprises.

---

[49]"Fast expanded fixed asset investment again raises an alarm," *China Economic News*, February 21, 1994, pp. 1-2.

[50]*China - EIU Global Forecasting Service 1st quarter 1993* (London: The Economist Intelligence Unit Limited, 1993), pp. 9-11.

9.2 Prospect of Japanese Companies in China

More Japanese firms would establish or expand plants abroad in order to improve efficiency in manufacturing operations. The active markets of South-east Asia and China, which are still able to offer low labour and raw material costs, are expected to receive the bulk of the new outflows. As a result, the Asianization trend of Japanese FDI will continue. Investment in China would also speed up and strengthen. With the help of the Japanese government, small and medium-sized Japanese firms will continue to be the most active Japanese investors in China. In the last few years, Japanese firms have invested many export-oriented, medium-technology, light-industry projects in China. Probably Japanese firms have stronger confidence in China's FDI environment. Or China is good for quality, low-cost products compared against ASEAN countries[51] for offshore sourcing. Or it is the only way out for Japan's recession and the yen's rise. According to the Japan-China Investment Promotion Organization, recent characteristics of the investment by Japanese companies in China include:

(1) an expansion of the areas in which investment is being made. Recently, interest has been rising in South China regions such as the Shujiang river delta, Xiamen, and Fuzhou and inland regions such as Hebei, Hubei and Sichuan provinces. It is partly because of the growing difficulty in finding suitable land in the coastal regions and the rising personnel costs. As a result, investment is increasing in nearby

[51]The Association of South East Asian Nations (ASEAN) was established in 1967 in Bangkok to accelerate economic progress and increase the stability of the South East Asian region. The member countries are Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

areas. Taking Shanghai as an example, the adjacent Songjiang and Baoshan counties are rising as investment sites.

(2) the range of industries in which investment is being made is expanding. There is an easing of restrictions in the wholesaling and retailing industries, warehousing, transportation, precision machinery, electrical and electronic equipment.

(3) most of the investments continue to be of small and medium size, but large investments are also appearing particularly in home electric appliances and cement. For instance, recently, Uchiyama Advance Co. (a Japanese ready-mixed concrete producer), Yamaichi Kosan Co. (a Japanese ready-mixed concrete wholesaler, trading companies Itochu Corp. and Onoda Cement Co., Shenzhen Building Materials Industry Group Co. and Shenzhen Cement Tong Products Factory have initiated a US$3.5 million joint venture in Shenzhen to produce ready-mixed concrete for construction industry. The Japanese companies would hold a 51% stake; with Uchiyama and Yamaichi taking a 31% stake, and Itochu and Onoda each holding 10%. The Chinese companies would hold the remaining 49%.[52]

(4) companies are switching to joint ventures so as to be able to tap into the sales channels of their Chinese partners in the China domestic market.

[52] "Japanese Firms Mull Chinese Joint Venture," *The Asian Wall Street Journal*, April 4, 1994, p. 3.

CHAPTER X

CONCLUSIONS

The purpose of this research is to investigate the Japanese investment in China. Currently, Japanese investment in China is growing rapidly, against the general three-year decline in Japanese investment worldwide. Japanese firms are characterized by their aggressive high growth strategies. This draws our attention for their movement in China. Today, China is also Japan's second largest trade partner while Japan is China's largest trade partner. This is partly fuelled by investment activities.

China's economic environment is the crucial factor for the development of its FDI. Since the start of the "open door" policy, China's economic growth has been well above that for the developed countries. The increase in domestic demand also attracts a lot of foreign investors. Political stability, openness of policies, economic development, trade balance, foreign currency reserve, investment environment, law and legislation, infrastructure are all key factors which determine the future trends of FDI in China. Investments in infrastructure, raw materials and tertiary industry are expected to grow. However, the overheated economy would still be the major problem in China. Due to the geographical proximity, Hong Kong investment in Guangdong and Japanese investment in Dalian would continue to grow. Meanwhile, the inland cities, particularly those along the Changjiang River, would become more significant.

Nonetheless, investment in China is a matter of weighing the benefits and costs associated with conducting business there in the short and long terms. Often, business opportunities are actually good in China, but difficulties in administrative procedures and the operating environment, which translate into high costs, kill the deals. Up to now, China's comparative advantages are still surplus labour and huge consumer market which can sustain high growth. However, the Chinese authorities usually emphasize the desirability of attracting FDI that brings in high technology, increases exports and develops infrastructure. Their policy statements do not fully take China's present comparative advantages. In other words, the policy may be running ahead too fast and incompatible to the actual situation. To most multinational corporations (MNCs), China is an attractive location for investment in the long run. Many MNCs are willing to invest a minimum amount in the country just to maintain a foothold there. They do not care about the risk. For small and medium-size firms, they do not have the MNC's staying power. These investors may find opportunities in low technology and labour-intensive export processing activities.

The Chinese government policies also change rapidly. At one time, investment is highly encouraged. At the other time, the economy is overheated and austerity program is launched. These frequent fluctuations have not contributed positively to China's image as a place to invest. For Chinese authorities, the key question has been how to fit FDI's market-oriented activities into China's essentially centrally planned domestic economy. FDI, as an integral part of China's overall drive for development and reform, has presented a challenge that authorities can meet only with a full commitment to fundamental changes in China's economic and social systems.

Without major political or economic fluctuations in China, we believe Japanese FDI in China will continue to grow beyond the U.S. FDI in the near future. Japanese firms have not started their investments in China until the late 1980s. With the high growth rate in the 1990s, the cumulative investment figures are sure to be surging. The question is whether the inexpensive labour force and the 1.2 billion population in the PRC are sufficient to induce Japanese firms in the late 1990's. Japanese firms are now targeting more on the Chinese domestic market. Should such strategy toward less export orientation and more import substitution be enhanced? Given the Chinese government policy, should Japanese firms neglect the present Chinese comparative advantages and carve themselves to a high-technology, high value-added FDI niche, leaving to other Asian countries the medium-level technology projects? The answers for all these questions will be proved to be correct or not as time goes by. Nevertheless, this report is only an exploratory research. It is worthwhile to contribute more effort for further research to find out the answers.

APPENDIX 1

PRIORITY INVESTMENT AREAS IN CHINA

China has set up several types of investment area over the past 15 years in chronological order as follows:

(1) *Fujian, Guangdong provinces (1979-80)*
According to the modernization programme, these two provinces have been chosen to grant special rights and privileges in conducting foreign trade and investment.

(2) *Special Economic Zones [SEZs] (early 1980s)*
Shantou, Shenzhen, Zhuhai ad Xiamen in the southern part of China together formed the Special Economic Zones. The sones are designed to attract foreign capital, technology and expertise, offering in exchange tax incentives, a tariff-free environment and low charge for land and labour. In 1988, Hainan Island also received approval to become the fifth Special Economic Zone.

(3) *14 Open Coastal Cities (April 1984)*
The 14 cities from north to south are: Qinhuangdao, Dalian, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Beihai and Zhanjiang. Special areas in the 14 cities have been designated as Economic and Technological Development Zones with the aim of concentrating funds on importing advanced technology, and establishing ventures with foreign enterprises and joint research institutes to develop new technology and high-grade consumer products.

(4) *Open Economic Zones (mid-1980s)*
The five areas are: Liaodong Peninsula, Shangdong Peninsula, Changjiang (Yangtze) River Delta, Minnan Delta, and Zhujiang (Pearl River) Delta. All these zones encompass prosperous rural areas which surround major coastal cities.

(5) *Shanghai Pudong district (early 1990)*
The plan to set up this district is intended to benefit both Shanghai and the entire Changjiang River Delta region, thus closing the gap in development between the inland and coastal regions.

(6) *Inland Cities (mid-1990s)*
The region stretches from Pudong, known as the "dragon head", to Chongqing on the "dragon's tail." Altogether, 28 cities and 8 prefectures have been designated "open", meaning they are on the priority list for foreign investment. Major cities include Pudong, Hangzhou, Nantong, Nanjing, Tongling, Wuhan, Jiujiang, Yueyang, Yichan, Chendu and Chongqing; Other cities in the north region such as Shenfu and Huanghua and in the southwest region such as Kuming, Nanning, Chuxiong, Yuxi, Daxian, Neijiang, Jiangyou and Leshan are also developed.

Source: W.K. Anthony Wong et al, *A Profile of The People's Republic of China*, March 1993, p. 8.
"China: Regional development," *Institutional Investor*, October, 1993, pp. SS2-SS3.

APPENDIX 2

CHINA'S TOP TEN FFEs (MANUFACTURING) IN 1992

Name of Enterprises	Investing country	Sales Vol. (Rmb mil.)	Pre-tax Profit (Rmb mil.)	Assets (Rmb mil.)	Forex Income (US$ mil.)	Approved Date (Year,Month)	Foreign Equity (%)	Durat ion (Yrs.)
Shanghai Volkswagen Automobile[a]	Germany	7,108	715.1	2,315	23.39	1984,12	50	25
Beijing Jeep Corp.[b]	U.S.	3,490	261.8	2,089	8.21	1983,06	38	20
Guangzhou Peugeot Automobile[c]	France	2,444	187.5	1,551	16.00	1985	34	20
Nanhai Fat Industry (Chiwan)	N/A	1,447	N/A	455	N/A	N/A	N/A	N/A
Huaqiang Sanyo Electronics[d]	Japan	1,403	23.8	507	149.40	1984,05	50	15
Shanghai Bell Telephone Equipment[e]	Belgium	1,318	343.6	1,193	3.49	1983,10	40	12
Shenyang Jinbei Bus Manufacturing[f]	N/A	1,290	N/A	821	N/A	N/A	N/A	N/A
Guangzhou Iron & Steel	N/A	1,268	86.6	740	9.98	N/A	N/A	N/A
Shenzhen Konka Electronics (Group)[g]	Hongkong	1,213	100.8	550	105.00	1979,12	37.54	N/A
Shenzhen Zhonghua Bicycles (Group)	N/A	1,166	127.5	1,643	268.42	N/A	N/A	N/A

Continue on next page...

APPENDIX 2 (continued)

[a]Shanghai Volkswagen Automobile Co., Ltd. is a 50-50 joint venture by Shanghai Tractor & Automobile Corp. (the Chinese Party) and Volkswagenwerk Aktiengesellschaft, F.R.G. (the German Party).

[b]Beijing Jeep Corp. Ltd. is 38%-owned by U.S. Chrysler Corp. (formerly American Motors Corp, which was bought by Chrysler in 1987) and 62% by Beijing Automobile Works.

[c]Automobiles Peugeot Co. France owns a 22% stake, with Guangzhou Automobile Manufacturing holding 46%, Chinese International Trust & Investment Corp. 20%, Banque Nationale de Paris 4% and the World Bank's International Finance Corp. 8%.

[d]Huaqiang Sanyo Electronic Co. Ltd. is a 50-50 joint venture in Shenzhen by Huaqiang Electronic Industry Co. and Sanyo Electric (HK) Co., Ltd. Japan.

[e]Shanghai Bell Telephone Equipment Manufacturing Co., which started up in 1983, is 32%-owned by Belgium's Alcatel Bell, 60%-owned by China's Ministry of Posts & Telecommunications, and 8%-owned by the Belgian government.

[f]Jinbei Automobile Shareholding Co. is 60.5%-owned by the Shenyang Municipal Government, 23.5% by the manufacturing affiliates of Jinbei and 16% by the public shareholders.

[g]Shenzhen Konka Electronics was 51% owned by Shenzhen Overseas Chinese Town Economic Development Co. and 49% by Hong Kong Kwong Wah Electronics when it was started in December 1979. The company went public in March 1992. It is now 39.07% owned by Shenzhen Overseas Chinese Town, 37.54% owned by Kwong Wah, 20.56% owned by the public and 2.83% owned by the company staff.

Source: *Almanac of China's Foreign Economic Relations and Trade* (Beijing: China Resources Trade Consultancy Co. Ltd., 1984, 1985, 1986).
"China's Biggest 500 FFEs (Productive) in 1992," *China Economic News*, December 13, 1993, pp. 1-2.
Henny Sender, "In Capitalist Clothes: China makes its Wall Street Debut," *Far Eastern Economic Review*, October 1, 1992, pp. 90-91.
Jonathan Karp, "Back on the Road: China Auto Ventures Rebound from 1989 Squeeze," *ibid.*, March 26, 1992, pp. 49-50.
Michael Westlake, "Joint venture: Millions calling," *ibid.*, April 8, 1993, pp. 48-52.
Paul Aiello, "Building a Joint Venture in China: The Case of Chrysler and the Beijing Jeep Corporation," *Journal of General Management*, Winter 1991, pp. 47-64.
Prospectus of Shenzhen Konka Electronics (Group) (Shenzhen: March 1992), pp. 2,6.
Tatsuya Anzai, "Making it in China: Sanyo Electric," *Tokyo Business Today*, April 1992, p. 51.

APPENDIX 3

RULES FOR SETTING UP A JOINT VENTURE IN CHINA

Rules for the setting up of a joint venture business in China:

Guarantee offered to the investor:
Chinese government guarantee that she does not practise nationalization and expropriation of a joint venture unless under special circumstances for the interest of social public (Article 2).

Investment needed for setting up joint venture:
The proportion of the investment contributed by the foreign joint venturer(s) shall generally not be less than 25% of the capital of a joint venture (Article 4). The investment can be made in the form of cash, property rights, technology, equipment of the right to use of a site, etc (Article 5).

Period for joint venture:
The contract period of a joint venture may be decided differently according to its particular line of business and circumstance (Article 12).

Termination of business:
In case of heavy losses, the contract may be terminated through consultation and agreement by the parties to the venture and subject to approval by the approval authorities and to registration with the state competent authorities of administration for industry and commerce (Article 13).

Management structure:
A joint venture shall have a board of directors which is empowered to decide all major problems of the venture (Article 6). It is required that if the chairman of the directors board come from one joint venturer (e.g. foreign venturer), the vice-chairman should come from the other venturer (i.e. the Chinese venturer. The employment of (deputy) general manager and other management like (deputy) chief engineer,, (deputy) treasurer and auditor will be done by the board.

Source: W.K. Anthony Wong et al, *A Profile of The People's Republic of China*, March 1993, pp. 15-16.

APPENDIX 4

CHINA'S NEW TAXES

Here's a summary of the new taxes that took effect in China Jan. 1, 1994. They apply to both foreigners and Chinese.

VALUE-ADDED TAX Replaces the Consolidated Industrial and Commercial Tax. Assessed on the production and the sale of products at each stage of manufacture. The rate is 17% for most products, 13% for food and agricultural products, and 6% for small-scale businesses. Products for export are exempt, as are capital inputs for agricultural production, birth-control products, imports for scientific research, special imports for the handicapped and imports for diplomats.
CORPORATE INCOME TAX A unified 33% tax rate levied on all companies. Lower, preferential tax rates on foreign firms in special investment zones will remain intact.
INDIVIDUAL INCOME TAX Levied on wages, salaries, revenues from individual businesses, contracts, rentals, royalties, interest, dividends and property transfers. The first 800 yuan (US$92) of monthly earnings are deductible. Rates progressively increase to 45% for monthly incomes exceeding 100,000 yuan (US$1,150).
CAPITAL GAINS TAX Levied on profits from stock transactions and the sale and development of real estate. Residential property developers who earn less than 20% profit are exempt. Acquisition, development and construction costs are deductible.
CONSUMPTION TAX To be levied on luxury items including alcohol, tobacco and cars, at varied rates up to 45%.
BUSINESS TAX Assessed on service industries. Ranges from 3% on transport, construction and communications to 20% on bars, dance halls, teahouses, golf courses and other entertainment.

Source: Laurence Zuckerman, "China's New Taxes Puzzle Foreigners," *The Asian Wall Street Journal*, January 3, 1994, p. 4.

BIBLIOGRAPHY

Books

Almanac of China's Foreign Economic Relations and Trade. Beijing: China Resources Trade Consultancy Co. Ltd., 1984, 1985, 1986.

Ibid. Beijing: China Social Publishing House, 1993.

China - EIU Country Forecast 1st quarter 1994. London: The Economist Intelligence Unit Limited, 1994.

China - EIU Global Forecasting Service 1st quarter 1993. London: The Economist Intelligence Unit Limited, 1993.

China Foreign Economic Statistics. Beijing: China Statistical Information & Consultancy Service Centre, 1992.

Daniels, John D., and Radegaugh, Lee H. *International Business Environments and Operations.* Massachusetts: Addison-Wesley, 1992.

Fukuda, K. John. *Japanese Management in East Asia and Beyond.* Hong Kong: The Chinese University Press, 1993.

Guide to Economic & Technical Cooperation and Investment in China. Beijing: China Economy Publishing House, 1988.

Japan - EIU Country Forecast 1st quarter 1994. London: The Economist Intelligence Unit Limited, 1994.

JETRO - Japan External Trade Organization. Japan: n.p., 1993.

Prospectus of Shenzhen Konka Electronics (Group). Shenzhen: n.p., March 1992.

Some facts about Daya Bay. Hong Kong: Guangdong Nuclear Power Joint Venture Co. Ltd, August 1989.

Thurow, Lester. *Head to Head - The coming Economic Battle among Japan, Europe, an America.* London: Nicholas Brealey Publishing Limited, 1993.

Wright, Peter et al. *Strategic Management - Text and Cases.* Boston: Allyn and Bacon, 1992.

Newspaper and Periodicals

Aiello, Paul. "Building a Joint Venture in China: The Case of Chrysler and the Beijing Jeep Corporation." *Journal of General Management*, Winter 1991, 17:47-64.

Anzai, Tatsuya. "Making It in China: Sanyo Electric." *Tokyo Business Today*, April 1992, 60:51.

Aoki T.; and Ohashi, H. "ASIA: Integration of the World's Most Dynamic Economies." *ibid.*, June 1992, 60:26-29.

Bates, Laurence W. "Protecting Foreign Investments in China: The Sino-Japanese Bilateral Investment Treaty." *East Asian Executive Reports*, December 15, 1988, 10:9-14.

Battat, Joseph. "Foreign Investment in China in the 90s: Developing Trends." *ibid.*, August 15, 1991, 13:11-17.

Broadfoot, Robert. "Whither Hong Kong Investment? All Eyes Are on the Japanese." *China Business Review*, January/February 1991, 18:26-31.

Caplen, Brian. "No quarrels: Just fights." *Asian Business*, January 1993, 29:46-47.

Carroll, John. "Are We Overestimating China's Potential?" *Across the Board*, May 1990, 27:48-51.

"Charges Against 300,000 Officials reveal deep corruption in China." *The Asian Wall Street Journal*, January 5, 1994, p. 3.

Chen, Nai-Ruenn. "China: Faster growth and reforms brighten business outlook." *Business America*, April 19, 1993, 114:48.

Clifford, Bill. "Japan's lending program in China." *China Business Review*, May/June 1993, 20:30-35.

"China Bans New Investment Plans In Renewed Bid to Fight Inflation." *The Asian Wall Street Journal*, February 1, 1994, p. 4.

"China now Japan's second largest trade partner." *JETRO China Newsletter*, no.106:20-22.

"China Promises Foreign Ventures Refunds if Their Tax Bills Rise." *The Asian Wall Street Journal*, January 13, 1994, p. 3.

"China: Regional development." *Institutional Investor*, October, 1993, pp. SS2-SS3.

"China Says Japan Top Trading Partner." *The Asian Wall Street Journal*, January 18, 1994, p. 3.

"China Says Trade Balance Swung to a Deficit in '93." *ibid.*, January 10, 1994, p. 3.

"China's Biggest 500 FFEs (Productive) in 1992." *China Economic News*, December 13, 1993, p. 1.

"China's Central Bank Chief Says Inflation Will Decline in 1994, 1995." *The Asian Wall Street Journal*, March 7, 1994, p. 4.

"China's Foreign Trade in 1993 over US$195B." *China Economic News*, February 21, 1994, pp. 11-13.

"Decision on the Use of Interim Regulations Concerning Value-added Taxes, Consumption Taxes and Business Taxes on FFEs and Foreign Enterprises." *ibid.*, January 31, 1994, p. 7.

Delfs, Robert; and do Rosario, Louise. "Sense or Sensibility: Historical Mistrust Hampers Marriage of Capital and Cheap Labour." *Far Eastern Economic Review*, April 25, 1991, 151:52-56.

"Direct Investment By Taiwan in China Reaches $1.14 Billion." *The Asian Wall Street Journal*, January 13, 1994, p. 3.

do Rosario, Louise. "Neighbourly Dispute: China, Japan Uneasy with Sanctions." *Far Eastern Economic Review*, December 21, 1989, 146:55.

----------. "Tailored to Fit: Japan and China Find They Complement Each Other." *ibid.*, October 22, 1992, 155:52-54.

Dornbusch, Rudi. "It's time to end Asia's 30-year free ride." *Business Week*, March 1, 1993, p. 18.

Du Bois, Peter C. "World Beaters: Three Portfolio Aces on a Global Hunt for Winners." *Barron's*, February 24, 1992, 72:8-9,20-42.

Engardio, Peter. "GM Finally Discovers Asia." *Business Week*, August 24, 1992, pp. 42-43.

----------. "Mainland Mania in Hong Kong." *ibid.*, August 17, 1993, p. 48.

"Fast expanded fixed asset investment again raises an alarm." *China Economic News*, February 21, 1994, pp. 1-2.

"Foreign Investment in China by Country and Region, 1992." *JETRO China Newsletter*, no.105:19.

"Foreign Investment in the PRC, 1991-92." *ibid.*, no.102:16-19, 21.

"Foreign Investment Soared in China in '93." *The Asian Wall Street Journal*, February 2, 1994, p. 3.

Frank, Sergey. "Global Negotiating: Vive Les Differences!" *Sales & Marketing Management*, May 1992, 144:64-69.

Goldstein, Carl. "Catch as Catch can: US Car Giant Redoubles push into Asia." *Far Eastern Economic Review*, March 19, 1991, pp. 42-43.

----------; and Rowley, Anthony. "Economic Relations: Japan in Asia - Part 2: Hongkong." *ibid.*, June 28, 1990, 148:70-73.

Greenwood, Gavin et al. "Environment in Asia 1991." *ibid.*, September 19, 1991, 153:37-57.

Guyot, Erik. "Nomura Research: A Breath of Optimism." *Asian Finance*, March 15, 1990, 16:16.

Hartman, Roger. "The Promise of the Pacific Rim: A Look at the Countries." *Financial Executive*, September/October 1990, 6:32-35.

Hornik, Richard. "Lies, Damn Lies and Chinese Statistics." *The Asian Wall Street Journal*, January 25, 1994, p. 6.

Hoshino, Takashi. "Japanese Investment Shifting to ASEAN." *Tokyo Business Today*, October 1989, 57:58-60.

Howard, Kim. "China and the dragons of the Pacific Rim." *Business Credit*, September 1993, 95:14-18.

Hunter, David; Jackson, Debbie; and Coeyman, Marjorie. "Industrial gases: China leads Asia/Pacific interest." *Chemical Week*, April 7, 1993, 152:24-26.

"Japan: Asia's Emerging Standard-Bearer." *Economist*, July 21, 1990, 316:30,34.

"Japan-China ties warm amid tensions with U.S." *The Asian Wall Street Journal*, March 21, 1994, pp. 1,10.

"Japanese Firms Mull Chinese Joint Venture." *The Asian Wall Street Journal*, April 4, 1994, p. 3.

Karp, Jonathan. "Back on the Road: China Auto Ventures Rebound from 1989 Squeeze." *Far Eastern Economic Review*, March 26, 1992, pp. 49-50.

Keijzer, Arne J. "Is China a good investment? - Predictions for the '90s." *East Asian Executive Reports*, January 15, 1993, 15:9-13.

Kim, Duk-Choong. "Open Regionalism in the Pacific: A World of Trading Blocs?" *American Economic Review*, May 1992, 82:79-83.

Ko, Kenneth. "Japanese Firms hold back New China Funding." *South China Morning Post - Business Post*, October 9, 1993, pp. 1,12.

Lee, Dinah. "A Quiet Comeback: How China Broke Out of Isolation." *Business Week*, December 24, 1990, pp. 34-35.

Levin, Mike. "How Asians Invest in Asia." *Global Finance*, June 1991, 5:43-45.

Maruyama, Nobuo. "Markets open, capital pours in, and business clusters on China's coast." *Tokyo Business Today*, September 1993, 61:12-15.

Masaki, Hisane. "Hong Kong, Taiwan, China lead Asian trade partners: 'Three China's voraciously gobbling up Japanese goods." *Japan Times Weekly International Edition*, May 24-May 30, 1993, 33:13.

Morino, Tomozo. "Corruption unlimited." *JETRO China Newsletter*, no.106:1.

Nakajima, Seiichi. "Obstacles to growth of the Chinese economy." *ibid.*, no.106:2-10.

Nashima, Mitsuko. "Companies in Hong Kong look far beyond 1997." *Japan Times Weekly International Edition*, August 16-August 22, 1993, 33:13.

Neff, Robert. "Japanese Investors Take a Fast Boat to China." *Business Week*, March 11, 1991, p. 96D.

"Overheated about China." *Economist*, January 23, 1993, 326:17-18.

Perry, Chris. "Japan: Shifting Money." *Asian Business*, September 1992, 28:16-17.

"Problems facing the 'New' Chinese Administration." *JETRO China Newsletter*, no.105:11-18.

Ram, Jane. "Investment: Boom or Bust: That's Showbiz." *Asian Business*, December 1992, 28:54-56.

"Recent Trends in investment and operations of foreign affiliates." *JETRO China Newsletter*, no.104:2-8.

Reynolds, Alan. "A Taxing Solution to Japan's Recession." *The Asian Wall Street Journal*, February 4-5, 1994, p. 8.

Romm, Joseph. "Japan's Flying Geese." *Forbes*, November 23, 1992. 150:108-112.

Rowan, Roy. "A Strategic Guide to the Rim." *Fortune*, Fall 1989, 120:72-84.

Rowley, Anthony. "Ebbing Streams: Japanese Firms Curtail Their Overseas Forays." *Far Eastern Economic Review*, June 18, 1992, 155:78-79.

----------. "Asia Above the Gloom." *ibid.*, December 24-31, 1992, 155:52-53.

"Samsung Co.: Focusing on China's Northeast." *Business Korea*, July 1993, p. 62.

Sender, Henny. "Facing the World: Japan's Humbled Brokers Adopt a Global Outlook." *Far Eastern Economic Review*, November 26, 1992, 155:52-54.

----------. "In Capitalist Clothes: China makes its Wall Street Debut." *ibid.*, October 1, 1992, 155:90-91.

----------. "No bed of roses: Yaohan discovers the business perils of China." *ibid.*, August 5, 1993, 156:64.

Shibata, Yoko. "The big four try to play a China card." *Global Finance*, May 1993, 7:78-79.

----------. "Japan's new target for investment is China." *ibid.*, June 1993, 7:54-56.

----------. "Japan's investment targets in Asia." *ibid.*, February 1993, 7:62-64.

Simon, Denis Fred. "After Tiananmen: What Is the Future for Foreign Business in China?" *California Management Review*, Winter 1990, 32:106-123.

Stein, Peter. "Yaohan Expects Healthy Results on China Sales." *The Asian Wall Street Journal*, March 1, 1994, p. 4.

Tadaki, Joy M. "China and Vietnam tempting for direct investment." *Japan Times Weekly International Edition*, January 25-January 31, 1993, 33:15.

Tattum, Lyn. "Investment: China fever grips companies." *Chemical Week*, August 25 / September 1, 1993, pp. S12-S21.

----------. "The Asia/Pacific chemical industry: New frontiers are opening." *ibid.*, February 3, 1993, 152:S19.

"Tax Reforms Entail No Added Burdens to FFEs - Official Policy." *China Economic News*, January 31, 1994, p. 3.

Thurwachter, Todd. "Japan in China: The Guangdong Example." *China Business Review*, January/February 1990, 17:7-17.

"Vietnam vying for more foreign investment, better infrastructure." *Tokyo Business Today*, May 1993, 61:14-15.

"Vietnamese trade: Tet offensive." *Economist*, February 13, 1993, 326:69.

Watanabe, Masumi. "Some Thoughts on Technology Transfer." *JETRO China Newsletter*, no.103:7-12.

Webster, D. Robert. "International Joint Ventures with Pacific Rim Partners." *Business Horizons*, March/April 1989, 32:65-71.

Westlake, Michael. "Joint venture: Millions calling." *Far Eastern Economic Review*, April 8, 1993, pp. 48-52.

Whitcomb, Vanessa Lide. "Interview: Widening the Open Door." *China Business Review*, July/August 1992, 19:39-40.

----------. "Tightening up on tied aid." *ibid.*, May/June 1993, 20:36-39.

Wu, Friedrich. "China's Rising Speculative Outflows." *The Asian Wall Street Journal*, March 7, 1994, p. 6.

Zhao Jinglun. "China and the Pacific Rim - The Cultural Factor." *Business Horizons*, March/April 1989, 32:54-57.

Zuckerman, Laurence. "China's New Taxes Puzzle Foreigners." *The Asian Wall Street Journal*, January 3, 1994, pp. 1,4.

Reports

Lee, W.C. Ernest; and So, M.K. Waynie. *Japanese Investment in Hong Kong Towards 1997 - Its Implications and Future Direction*, April 1992.

Wong, W.K. Anthony et al. *A Profile of The People's Republic of China*, March 1993.

Chinese Articles

"日本成為中國最大貿易伙伴。"經濟一週，["Japan becomes the China's largest trade partner." *Economic Digest*,] November 7, 1993, 630:42.

"日本企業加速向中國發展。"信報財經月刊，["Japanese Enterprises accelerate their China Development." *Hong Kong Economic Journal Monthly*,] June 1993, 195:83-88.

"八佰伴擬購商場以增加土地儲備。"明報，["Yaohan plans to buy shopping centres to increase its land reserves." *Ming Pao*,] March 1, 1994, p. B2.

"中日十年內雙邊貿易，朱鎔基料可增長十倍。"明報，["Zhu Rongji expects trade between China and Japan could have a ten-fold increase within ten years," *Ming Pao*,] February 26, 1994, p. A9.

Japanese Articles

"平成４年度における対外及対内直接投資状況。"大蔵省国際金融局，["Japanese Foreign Direct Investment and FDI in Japan in 1992." *Ministry of Finance, Japan*,] June 3, 1993, pp. 1-9.

"華南経済圏。"日本貿易振興会，["South China Economic Sphere." *JETRO*,] April 1992.